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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 4637

AN ACT MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1989, AND FOR OTHER PURPOSES

PART 3 (Pages 1–350)

AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE
EXPORT–IMPORT BANK
OVERSEAS PRIVATE INVESTMENT CORPORATION
U.S. TRADE AND DEVELOPMENT PROGRAM

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CONTENTS

WEDNESDAY, JUNE 8, 1988

Page

Export-Import Bank 1
Agency for International Development 29
U.S. Trade and Development Program 37
Overseas Private Investment Corporation 59

FRIDAY, JUNE 10, 1988

Department of State:

Bureau for Refugee Programs 139
Bureau of International Narcotics Matters 171
Counter-Terrorism 187

THURSDAY, JUNE 16, 1988

Department of State:

Secretary of State 251

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

WEDNESDAY, JUNE 8, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room S–128, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, Lautenberg, Mikulski, and Kasten.

EXPORT-IMPORT BANK

STATEMENT OF JOHN A. BOHN, JR., PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. This morning we will continue our examination of fiscal year 1989 funding of foreign assistance and other programs.

Today our attention turns to the Export-Import Bank of the United States, the A.I.D. Trade Credit Insurance Program, the A.I.D. Trade and Development Program, and the Overseas Private Investment Corporation. It is the responsibility of this subcommittee to oversee these institutions and to examine the impact of the operations on American foreign policy.

With us this morning is the Honorable John A. Bohn, Jr., President and Chairman of the Eximbank of the United States; the Honorable Terrence J. Brown, Director of the A.I.D. Office of Development Resources for Latin America and the Caribbean; the Honorable Nancy D. Frame, Acting Director of the United States Trade and Development Program, International Development Cooperation Agency; and the Honorable Craig A. Nalen, President and Chief Executive Officer of the Overseas Private Investment Corporation.

I thank all of you for joining us this morning. We have received your prepared statements, and they will be made part of the record.

So, if I may, I would like to call upon the Eximbank first.

REPORT ON NEW PROGRAMS

Mr. BOHN. Thank you very much, Mr. Chairman. Let me fist thank you particularly but other members of the committee as well for your continuing strong support for the bank and its programs over a number of years.

I last met with you on July 28, 1987 shortly after we had initiated some of the new programs, and I would like to take a few moments this morning in passing to give you some indication as to where we have come since that time.

We have made some progress in reducing export credit subsidies. We have made some progress in reducing the utilization of direct credits in favor of utilizing the less costly guarantees. We have made some progress in bringing interest rates used in subsidized export credit transactions more closely in line with market rates.

Nonetheless, Mr. Chairman, the Eximbank is still, and I think perhaps more importantly than ever, poised to deal with this next decade. I think it is important that we recognize that we are in the process of filling an important void left by significant commercial bank withdrawal from the financing of U.S. exports.

We have also been called upon to do some new kinds of transactions in the area of leasing and to try to harness the capital markets in support of American exports.

We are still seeing very strong global international competition from other nations as they support their own national corporations in continuing export drives. We have seen added to that over the last few years the newly industrialized countries, specifically Korea and Taiwan as well as in some cases developing countries such as Brazil, more and more using aid and subsidies to land markets and provide domestic jobs.

BUDGET REQUEST

For 1989, we are requesting $705 million in direct credits, which is a 2-percent increase over the $693 million for 1988. We are asking for $10.2 billion in guarantees, which is also at a 2-percent increase.

We have seen a general lowering of the traditional demand of export credit agency usage at the Export-Import Bank over the last couple of years, and I know it has been a source of some concern to this committee and to you, Mr. Chairman, as to whether or not we were asking for more funds than we, in fact, expected to utilize.

REDUCTION OF EXPORT CREDIT AGENCY USAGE

One of the reasons for the decline since the 1970's is that virtually there has been no nuclear energy construction which occupied a large part of Eximbank activities over the course of the 1970's.

We have similarly with the new aircraft agreement provided virtually no funding for another large export item; namely, aircraft. When we make our projections for both 1988 and 1989, we therefore leave both of these out of our projections in an attempt to get at the core of our business as it seems to be unfolding into the next decade.

I may add that this is true also with other export credit agencies. COFACE, ECGD and the rest have also seen a significant decline in demand over the last couple of years. Part of that relates to a drop in interest rates, as I mentioned earlier, where interest rates have come down to the point where it is competitive to finance in the marketplace.

A large part of that, of course, relates to the third world debt crisis which has particularly in the case of the United States reduced the demand for large projects and, indeed, exports from the United States, particularly in the area of Latin America.

The reason I raise these issues is that we still are anticipating roughly $1 billion utilization in 1988 which, if we are accurate, will result in some spillover into 1989.

U.S. EXPORTS TO DEVELOPING COUNTRIES

We are also, and this is really a personal view, beginning to see some improvement in the potential to export to some of the developing countries. There is some cause to have some optimism. With respect to Brazil, they have begun to take some important measures, and, of course, that is a very large market should we reopen there.

We recently reopened to support American exporters in another large market; namely, Nigeria. We have, as you know, opened short-term in Iraq.

Any one of these markets can produce substantial demand for American exporters of goods and services, and I would submit as we move into the last quarter of this year and the beginning of 1989 those demands will begin to be felt in terms of commitments and in terms of authorizations.

An increasing part of our business, however, now is really not so much the traditional project financing as it is the financing of discreet products and services. That means that we are financing many more transactions of a much smaller value.

We still find ourselves in the position, therefore, of having to spend more time per dollar of export support, and for that reason the change in our composition and our request for administrative expense increase is a particularly important one this year.

BUDGET SPILLOVER

As of the first of June, we have utilized, that is committed, roughly $570 million of our $693 million capacity for 1988. As I said earlier, we are expecting about $1 billion for 1988, which will mean that as we look into 1989 some part of the 1988 spillover will have to be pushed into 1989.

That will, of course, mean that for new sales in 1989 we are apt to find a reduced capacity for those kinds of new sales to the extent that we push 1988 transactions into 1989.

Nonetheless, given our best judgment as to where we find ourselves and what we can expect in 1989, we think the numbers requested will squeak us through. We can, of course, at any one time get a very large transaction which will come to fruition at a time when it's not expected.

We try to go through and do a transaction-by-transaction evaluation both on probabilities and in terms of a kind of seat-of-the-pants judgment to see when these transactions are likely to take place, if indeed they are likely to take place, and our best judgment then will indicate somewhere about $1 billion in 1988 which will push about $200 million to $300 million in to 1989.

We think, unless interest rates go way up, that the marketplace will permit us to squeak by with the $705 million for 1989.

PERSONNEL LEVEL OPERATIONS

We are operating at a personnel level at the bank the same as it was in 1969. I can tell you, Mr. Chairman, that given the changed nature of the business which we are doing, that is to say as a result of our 1986 reauthorization legislation for the first time last year which permitted direct access by exporters to the Export-Import Bank the number of applications needing processing have greatly increased.

The reason for this change, I think was a very healthy one. Specifically, it permitted the smaller and medium size exporter to come to the bank directly in order to develop a transaction, get support for that transaction, and then gave the exporter the capacity to then go out and shop with an Eximbank guarantee on that transaction at various financial institutions.

We have found with the decline of interest within the banking community regarding export finance that more and more smaller and medium-sized businesses were essentially being foreclosed from getting to the Export-Import Bank.

That is the good news. The bad news is that many more people of a much lower level of sophistication are approaching the bank directly, and it takes the staff much more time to try to help these people put the transactions into bankable form.

We simply are finding that there is a much greater time demand on a given level of people with this new mix of transactions and new mix of doing business than there was in the past.

If you combine that direct access with the structural change in our business, namely that we have many more smaller and medium-sized transactions going forward as distinguished from the large megabuck kinds of projects, and the demands on the staff have gotten to the point where I fear we are sliding back into being not as responsive as I think we should be, given the importance of exports and our support in key countries to the exporting community.

What we are asking for in 1989 is really what we had asked for in 1988 but which was cut back to the point where we were simply giving permission for the people but we were not given the funds to pay them and, therefore, we were not able to do it.

I am concerned that with what I see as a rapidly increasing interest in the exporting business around the country that we will simply be unable to respond adequately.

FINANCIAL CONDITION OF BANK

With respect to the financial condition of the bank, Mr. Chairman, that is all in my testimony. I do not propose to go into any of those issues here unless there are some questions.

The two issues that I would raise are, one, working capital programs, which again is devoted to small- and medium-sized businesses. I am pleased to report that program is now over $200 million in commitments. We have done business with over 110 exporters and 78 banks. It has been distributed through 32, probably now 36, States, and, knock on wood, we are still in the black on that despite a couple of losses.

It is a program which permits, again, that very segment that we are trying to get into the exporting business, namely the new export or the small- or medium-sized company. It permits them to go to their bank to get some government support for working capital to effect the transaction for sale. It has been a very good program. It has been very well received. As I say, I am pleased to note that it actually is still in the black. We are not trying to make money. We are just trying not to lose any.

CITY-STATE PROGRAM

The other issue that I would call your attention to is the city-State program, which we talked about before. This is an attempt by the bank to work with other entities to distribute our services and knowledge of our services around the country. We have this pilot program with three cities, the city of Columbus, the city of Los Angeles, and the city of Tucson.

Each is going about it differently. The city of Los Angeles has contributed $800,000, has hired two staff and is providing office space and logistical support for one of our officers full time.

The city of Columbus is doing it on a voluntary basis, and I am pleased to say it has encouraged lawyers and bankers and accountants to contribute their time again to the small businessperson to get them acquainted with the exporting business.

I was in Tucson last week for their first international trade fair, and they had probably 250 or 300 people very actively working in this program. We expect to have some transactions from each of these cities within the next 2 or 3 months.

Our goal is to put in place an entity operated by the city in this case so that they will be in the position of having worked with us for a year, to know our programs and be able to work with the small and medium sized businessperson either to bring the program to their global commercial bank or to bring it to us directly.

We hope not to have people of our own scattered around the country but to leave in place a base of capacity which can work in this particular area.

We will see. It is a pilot program. We are going to evaluate it at the end of the year. We are going to do a median mid-term evaluation in a few weeks, and we are hoping to see whether or not we can replicate this around the country. I think it will provide an important contribution to being able to distribute the programs around.

With that, Mr. Chairman, if there are any questions you might have I would be pleased to try to answer them.

[The statement follows:]

STATEMENT OF JOHN A. BOHN, JR.

Mr. Chairman, Members of the Subcommittee:

I would like to thank you for your strong support of the Bank and its programs. When I last appeared before your Subcommittee on July 28, 1987, I described the major revision of programs and services that Eximbank had undertaken to make them more accessible, affordable and competitive. The new programs have now been in effect for one year, and the results so far are encouraging.

Mr. Chairman, I am happy to report that U.S. exporters are in fighting shape these days. Over the past few years, they have regrouped and emerged as a newly invigorated force.

The Administration has successfully worked within the OECD to reduce export credit subsidies on direct credits and aircraft and has negotiated a mixed credit arrangement. We have taken the lead in reducing the utilization of direct credits in favor of less costly guarantees. For example, official credit subsidies to industrialized countries are now prohibited and can only be extended through guarantees. For other countries interest rates subsidized by export credit agencies much more closely reflect market rates.

Nevertheless, our exporters still need Eximbank support. In some cases they need our financing assistance so they can compete on price, quality and services. In other cases they need our risk coverage to fill the void left by the significant commercial bank withdrawal from export finance in many of our traditional markets. In short, U.S. exporters are going to need us to be imaginative and open to new financing approaches, such as leasing and the use of capital markets.

There's still more we have to do. Strong global international competition is and will continue to be a fact of life, and other nations will continue to make substantial commitments to their export programs. In addition, the traditional global leaders are being forced to make room for newly industrialized countries such as Korea and Taiwan. In the future, we can expect even more competition to emerge from other countries. Even though we will remain the most important player in the international economic arena, we will have to work with and compete against countries with growing political and financial clout dedicated to promoting their exports.

Program Limitations

For FY89, Mr. Chairman, the Administration is asking for a direct loan program limitation for Eximbank of $705 million and a limitation on guaranteed loans of $10.2 billion. These levels represent a 2 percent increase over the current FY88 levels.

Projected Loan Activity Levels in FY 1988 and 1989

The decline in the dollar and general improvements in productivity have definitely helped U.S. suppliers sell overseas, but other factors have resulted in a general lowering of loan demand for Eximbank services over the last six or seven years. These factors can also be expected to hold any resurgence in loan demand below the levels of the late 1970's and early 1980's.

When analyzing projected usage under Eximbank's programs, it is important to keep in mind that overall demand on a worldwide basis for official export support has been declining steadily since the peak year of 1981 -- not just for us, but also for such principal competitors of ours as COFACE, ECGD, EDC and the Japanese Eximbank. Thus, for example, the Japanese Export-Import Bank supported $3 billion worth of exports in 1982 but only $1.3 billion in 1986.

One reason for the decline from the 1970's and early 1980's in usage of official export credits has been the drop in interest rates which has made it more economic to use the private capital markets.

The major factor, however, causing a reduction in the use of official export support -- that is, both credits and guarantees -- has been the continuing less developed country debt crisis.

Demand for large projects has remained at modest levels in many of the countries which are traditional markets for U.S. goods and services. As a result, an increasing part of our business is being devoted to financing the sale of smaller, discrete items, which means many more transactions for the same volume of business. Moreover, many U.S. exporters are reluctant to increase plant capacity or engage in long-term planning because of the uncertain outlook for export sales in certain markets.

Mr. Chairman, I know you have been skeptical in the past about our ability to fully utilize our direct credit resources. However, it appears very likely this fiscal year that demand will be sufficient to take us up to our credit limit. To date, we have utilized $540 million of our FY 88 loan limitation of $693 million. If U.S. exporters should win orders during the next few months for one or two larger projects for which we have loan offers outstanding, this demand could exceed our FY 1988 authority and result in a carryover of demand into FY 1989. If it appears that demand will exceed our authority, we will be forced to institute steps to curtail use of our FY 1988 and FY 1989 loan authority. We will continue to make sure that we only use direct credit authority in those cases where it is necessary to counter subsidized financing by foreign export credit agencies. Should it be necessary to suspend new loan offers, we would, of course, continue to offer guarantees of commercial loans to assist the exporter and the buyer in obtaining competitive commercial financing.

While we realize that these steps could result in the loss of U.S. exports or the delay of export transactions, we recognize the budget crunch facing the government requires Eximbank, like other agencies, to live within its means.

Administrative Expenses

The Bank is currently operating at a personnel level which is the same as it was in 1969 and more than 100 people below the peak level of the late 1970's. The $21.8 million in administrative expenses requested by the President for the Bank for FY 1989 will support a staff of 345 and provide for operational expenses. The greater volume of small transactions is imposing an increasing burden upon the staff.

Approximately 86% of Exim's administrative budget consists of personnel costs and rent. The remaining 14% represents the minimum amount required for basic routine operation of the Bank, such as telephone, telex, and postage expenses, essential services such as repairs and maintenance of equipment, office supplies and materials, printing and reproduction, and travel expenses.

The 1986 legislative mandate provided direct access by exporters to Exim services, greatly expanding the workload on the staff. In addition, our level of overall activity has been increasing significantly. In FY 1987, the Bank authorized $677 million of loans, $1.4 billion of guarantees and $6.4 billion of export credit insurance which supported export sales of some $9.3 billion. This represents a fifty percent increase from total export sales of $6.4 billion supported in FY 1986.

In short, the Bank is operating under very tight budget restraints as are many other government agencies. Full funding for administrative expenses is essential if the Bank is to fulfill its congressional mandate.

Financial Condition of the Bank

I would now like to discuss the Bank's financial condition. Let me emphasize at the outset that the continuation of our programs is independent of the financial condition of the Bank. Nevertheless, concerns have been raised about the financial condition of the Bank -- in particular, the need for a loan loss reserve, the need for recapitalization of the Bank and the sale of loan assets.

To bring you up to date, in 1987 the Bank incurred an operating loss of $340 million. Together with a $121 million prepayment premium on early retirement of debt from the Federal Financing Bank, the total loss amounted to $461 million. Our projected loss for this year is approximately $350 million.

For several years, the GAO has recommended that the Bank establish a reserve for sovereign risk loans and guarantees. The GAO reports have maintained that the absence of such a reserve hides the real cost of Eximbank's programs and may encourage misallocation of public resources. However, within the Administration -- not just Eximbank, but also the Treasury, State and the Federal Reserve System -- we believe that these loans to sovereign governments will eventually be repaid. Neither historical performance nor a general analysis of our portfolio provides a basis upon which to establish a loan loss reserve.

Furthermore, the Administration is concerned about significant adverse foreign policy implications which could result from the establishment of a loan loss reserve. In order to do so, we would have to make determinations that certain countries are not likely to repay their indebtedness to the Bank. Although we would attempt, of course, to keep such information secret, it is extremely difficult to do so, and information regarding the Bank's views on certain countries would almost certainly become public knowledge. This could not only impair U.S. bilateral relations, but could also send the wrong signal to debtor countries and in fact may encourage them not to repay their debts.

Finally, I would note that we do not consider the establishment of a loan loss reserve to be a useful management tool, nor would it provide any new information since our financial statements already provide full disclosure. Rescheduled and non-performing loans are already specified. For purposes of illustration, I have asked the Bank staff to make a simple pro forma restatement of our financial statements with an arbitrary percentage of loans charged against capital as a loan loss reserve. I would like to submit this statement for the record. The result, as I think you will see, is only to change around some numbers without providing any additional information useful to management, Congress or the public beyond what is already available in more detail in our annual reports. Given the adverse political consequences of making a country-by-country evaluation, as I mentioned earlier, it seems an unnecessary and indeed counterproductive exercise.

Turning to the question of recapitalization, I am concerned that the continuing decline in the Bank's capital will be viewed as evidence that the Bank is somehow fiscally irresponsible or in danger of being shut down. The truth of the matter, as I am sure you are all aware, is that the substantial drain on our reserves since 1982 results from loans made below our cost of funds to help U.S. exporters be competitive in the late 1970's. Before that time, Eximbank was actually earning a return on its equity. Since 1982, we have reduced the explicit costs of most of our loans through a series of successful international negotiations, but unfortunately our earnings will continue to suffer because of those earlier transactions. Whatever the arguments for recapitalization might be, the fact is that overall budgetary restraints preclude recapitalization at this time. We are hopeful that with our new risk-differentiated exposure fee system and market-related interest rates under our new programs we will be able eventually to restore our capital position. However, as shown by another table which I would like to submit for the record, the lengthy repayment period for the loans made in the 1970's and the limited increase in volume of more recent loans with positive spreads will prevent us from reversing our negative position for a long time.

In the meantime, I wish to emphasize that we can continue to operate effectively even with a negative financial position.

Current Programs

I would like to turn now to the programs that Eximbank is currently operating. As you will recall, the Export-Import Bank Act Amendments of 1986 directed Eximbank: 1) to improve our medium-term programs to make them fully competitive with the export credit agency programs of our trading partners; 2) to provide medium-term political and commercial risk protection coverage for exporter associations; 3) to provide access under all of our programs to both banks and non-banks and to both domestic and foreign financial institutions; 4) to permit the unrestricted transferability of obligations guaranteed or insured by us; 5) to open markets in more countries and; 6) to put more emphasis in promotion of small and medium-sized businesses.

We have responded to these directives in the following ways:

1. Support for Medium-Term Transactions. We have essentially eliminated the distinction between medium- and long-term programs. Instead, we are now offering an across-the-board type of support previously available only on a long-term basis. Our single guarantee program is designed to facilitate the movement of our paper into the private placement and capital markets and to eliminate possible confusion.

2. Medium-Term Umbrella Policies. We have recently developed a new combined short- and medium-term insurance policy to cover trade associations, export trading companies, export finance cooperatives and other multiple-exporter organizations. This program is in addition to our short-term umbrella policy which is geared specifically to small exporters.

3. Program Access. To implement our directive to assure broad access to all of our programs, we are now prepared to deal with any responsible entity -- a U.S. exporter, a foreign purchaser, a domestic or foreign bank, or any appropriate financing intermediary. In fact, since May 1, 1987, 41% of all preliminary commitments have been issued in response to applications directly from exporters. The ability of an exporter to approach a bank or other lender with a preliminary commitment

in hand can be a major selling point in the arrangement of export financing.

However, direct access has added substantially to our workload. In past years, banks used to prepare smaller export transactions for our consideration. Now we must assume the task of preparation. While we believe direct access is worthwhile in helping us to tap the full potential of the growing export markets and, in particular, to reach to small exporter who often cannot arrange bank financing, it has created additional burdens for our already hard-pressed staff.

4. Free Transferability of Eximbank-Guaranteed Obligations. In response to the 1986 legislation, all new obligations guaranteed by Eximbank are now fully and freely transferable. We are actively seeking to facilitate the movement of such paper into the private placement and capital markets.

5. Improvements in Guarantee Coverage. In order to facilitate transferability, we have made our new guarantee comprehensive and unconditional. Fees are payable up front so that when an Eximbank guarantee is issued, it will be valid for the life of the transaction. Banks that finance a U.S. export sale can receive a 100% U.S. government guarantee of principal (98% for a medium-term transaction involving a private buyer).

6. Open Markets. Our risk-differentiated exposure fee system is enabling us to be open in more markets than before, as well as to remain open longer in riskier markets. We are doing business in 141 markets and have liberalized cover policies in 65 markets. We are closed in only 15 markets for credit reasons and in 27 markets because of the statutory prohibition on doing business in Marxist-Leninist countries.

7. Small Business Exporters. As always, small business continues to receive priority in the Bank. In particular, we have made further changes in the working capital guarantee

program to improve the effectiveness of our guarantee and lower its costs. Since the inception of the program in 1983, we have approved approximately 150 transactions totalling $175.8 million with participation from 109 exporters and 78 banks. Exporters are operating in 32 states and the District of Columbia.

City-State Program

Historically, commercial banks have been the distribution system for Eximbank's programs. As I noted above, many have withdrawn from the trade finance arena or are limiting their support to only their best and largest customers. Small business exporters have suffered greatly as a result. To address this problem, we began our City/State Pilot Program in 1987 in an effort to create another distribution system to reach the small business community. We are actively working with three cities -- Columbus (Ohio), Los Angeles and Tucson -- as well as three states -- California, Maryland and Massachusetts -- to train their personnel in the mechanics of Eximbank and FCIA programs. They've demonstrated a real commitment to helping exporters. Los Angeles, for example, has allocated $800,000 to the effort. We think such collaborative efforts are an excellent idea for everybody. On the one hand, the cities and state know the exporters and potential exporters in their areas, but are not prepared to assume foreign risk. Eximbank and FCIA, on the other hand, are designed to assume such risk but do not possess the resources to reach the many small exporters in this country. The experience gained from this one-year program should help us design programs for other cities and states that would like to work with us.

Tied Aid Credits

While the Bank has succeeded in streamlining and updating its program and in publicizing them around the country, it faces very tough competition from our major trading partners in the area of tied aid credits.

Faced with the growing problems of mixing foreign aid with commercial credit, the Reagan Administration recommended the authorization of a tied aid War Chest to combat this pernicious practice. In 1986, Congress authorized and appropriated funds for this purpose.

To date, the Bank has provided some $83 million worth of grants in an effort to implement and enforce an international arrangement to restrict the use of tied aid credits for commercial purposes. Partially in response to our use of the War Chest and similar funding from our own resources, the 22 OECD countries participating in the Export Credit Arrangement agreed last March to tighten the rules governing the use of tied aid and other subsidized concessionary loans which distort international trade. Basically, the tighter rules make it much more expensive to provide mixed credit. The first stage of these changes went into effect on July 15, 1987, with the second and final stage to be implemented in July of this year. We expect to offer further grants from the War Chest in FY 1988 to make sure that the tighter rules are followed.

While the new arrangement has made tied aid credits substantially more expensive for donor governments, it has not eliminated them. In fact, the level of tied aid credit offers in calendar 1987 was higher than in 1986. In short, in the first five months the agreement was in effect, countries seem to have stepped up the grant or aid portion of tied aid credits.

If this trend continues after the higher elements of the second phase of the agreement go into effect, U.S. exporters will continue to be at a competitive disadvantage, and we may have to assess the impact of other countries' policies and practices on U.S. exports. If the problem of tied aid credits is not solved, we may need more than the War Chest.

In conclusion, Mr. Chairman, the international economic situation is changing and exporters' needs are changing. To provide the kind of support our exporters need to compete in today's competitive marketplace the Bank has overhauled and streamlined its programs. While commercial banks have shied away from country risk, the Eximbank has increased its exposure in many Third World countries. In short, where our country's exporters face foreign subsidized financing, the Bank has become the lender of last resort.

Government's role is to improve the environment for our businesses in international competition, not impede it through protectionist trade legislation. As part of this Administration, Eximbank fully intends to stay on the side of business in its struggle against unfair international competition.

Thank you, Mr. Chairman, for giving me an opportunity to share my thoughts with you today. I am prepared to answer any questions you or the members of your Subcommittee may have.

EXPORT-IMPORT BANK OF THE UNITED STATES

Amount and Impact on Equity of a Loan Loss Reserve
at Various Percentages of Such Reserve
As of 9/30/87
($ Millions)

	5%	10%	20%	30%	40%
Loans Receivable	$12,638.4	$12,638.4	$12,638.4	$12,638.4	$12,638.4
Less: Amount of Loan Loss Reserve	(-)631.9	(-)1,263.8	(-)2,527.7	(-)3,791.5	(-)5,055.4
Net Loans	$12,006.5	$11,374.6	$10,110.7	$ 8,846.9	$ 7,583.0
Capital Stock	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Reserve for Contingencies	(330.6)	(962.5)	(2,226.4)	(3,490.2)	(4,754.1)
Total Equity	669.4	37.5	(1,226.4)	(2,490.2)	(3,754.1)

Export-Import Bank of the United States
Projected Balance Sheet
FY 1989 - 2018

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 98	FY 08	FY 18
Loans Receivable	9,905.5	9,149.6	8,213.9	7,373.2	6,507.2	4,400.0	4,680.0	5,030.0
Cash & Other Assets	722.4	631.1	596.6	543.5	498.4	375.0	465.0	575.0
Total Assets	10,628.0	9,780.7	8,810.4	7,916.8	7,005.5	4,775.0	5,145.0	5,605.0
Borrowings From FFB	9,697.1	9,092.6	8,324.2	7,622.5	6,873.9	5,116.0	4,930.0	4,010.0
Other Liabilities	144.3	133.2	120.5	107.9	91.4	49.0	53.0	59.0
Total Liabilities	9,841.4	9,225.8	8,444.7	7,730.4	6,965.3	5,165.0	4,983.0	4,069.0
Capital Stock	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Reserve for Contingencies	(213.4)	(445.1)	(634.3)	(813.7)	(959.8)	(1,390.0)	(838.0)	536.0
Total Equity	786.6	554.9	365.7	186.3	40.2	(390.0)	162.0	1,536.0
Total Liabilities & Equity	10,628.0	9,780.7	8,810.4	7,916.8	7,005.5	4,775.0	5,145.0	5,605.0

Projected Income Statement
FY 1989 - 2018

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 98	FY 08	FY 18
Interest On Loans	877.3	785.7	709.6	629.3	552.3	362.0	385.0	410.0
Other Income	79.0	80.5	85.2	88.8	92.4	104.0	139.0	150.0
Total Income	956.3	866.3	794.8	718.1	644.7	466.0	524.0	560.0
Interest on Debt	1,134.5	1,036.9	918.3	827.3	718.4	415.0	370.0	305.0
Other Expense	56.4	61.0	65.7	70.2	72.4	66.8	52.8	60.0
Total Expense	1,190.9	1,097.9	984.0	897.5	790.8	481.8	422.8	365.0
Net Income	(234.6)	(231.7)	(189.2)	(179.4)	(146.1)	(15.8)	101.2	195.0

Assumptions: Loan authorizations of $705 million, G & I auth of $10,200 million in FY 89 increasing
each year by the OMB projected GNP deflator.
Interest rates held constant.

U.S. EXPORT LOSSES

Senator INOUYE. Thank you very much, Mr. President.

As you have noted, I have long supported the activities of your bank, and I continue to do so because I believe it is in our best interest to support any sort of activities that would enhance our export picture.

I am certain you have noted, however, that there are many in the Congress as well as in the administration who do not feel the same way, and in anticipation of questions which I am certain my colleagues will be asking me, I would like to ask a few questions.

First, during the early 1980s I think we experienced losses ranging between $250 and $300 million a year. In the fiscal year ending September 30, 1987, we experienced a recordbreaking loss of $387 million. At a time when the President has been trying to cut down the expenses of government, especially the social programs, we have those who are saying why are we experiencing these losses.

Can you explain to us why and justify these losses?

Mr. BOHN. As a banker, I am never very comfortable in sustaining losses even if they did not happen on our watch.

Virtually all of those losses were the result of a negative interest carryover. In the early 1970's and, indeed, even into the late 1970's, before the agreements were reached in the OECD to link the rates that we charged to some kind of a consensus, you had a large volume of transactions which went forward quite legitimately because one country was competing head on with another one.

We did, for example, several billion dollars a year of direct lending over that period where the Export-Import was borrowing at 12 percent or thereabouts and lending money at 6 percent. Unfortunately, you cannot even make that up on volume. What happened was we did a great deal of business at that time.

Locked in place, therefore, is a very large negative interest carried which impacts the bank substantially at a time when we are not doing very much comparatively new business at positive spreads.

In 1983, 1984, 1985, most of the direct lending, certainly not all of it but much of it, was actually done at a modest positive spread; that is to say we were actually making money.

SPREAD BETWEEN BORROWING AND LENDING

Senator INOUYE. How do you determine the spread? I notice 1 year when it was high, when the interest rates were about 16 percent, you loaned it out at 10. How is that justified?

Mr. BOHN. Well, before 1982 when the consensus was reached, there was essentially a competition in the export support business; that is to say, one nation was competing against another. There was a full-blown push to try to get as much export support as possible utilizing these heavily subsidized rates.

One of the reasons that we tried in the administration early on to negotiate this consensus in Europe was to try to get all of the export credit agencies with whom we are competing to agree on a certain series of rates and to tie those rates to a market adjustment process so you would not have or at least not have for a very long period of time these huge deep discounts precisely to avoid this happening in the future.

In my judgment, it is now virtually impossible for these very deep discounts to continue for a very long period of time. If you have a precipitous change in interest rates, that is to say if you get a change in interest rates where interest rates go from 6 percent to 10 percent in the space of about 4 months, you could well have a negative carry in terms of the loans you made during that particular period of time.

In fact, these rates are adjusted to a market basket of currencies every 6 months so you will not have that huge deep discount in the future. You can have it sporadically, but it is highly unlikely that a large interest rate spread would ever happen again for a lengthy period of time.

Senator INOUYE. Would it be your contention that if it were not for these discounts our companies would not have been able to compete; for example, aircraft manufacturers selling aircraft, Westinghouse and others selling nuclear power?

Mr. BOHN. That goes back before my time. I think one has to make two generalizations about that, Mr. Chairman. One, if we start, as we have tried to do since 1980, and operate the bank as essentially a defensive mechanism, then your response to a request for support is triggered by the support given by another country.

If, however, as was true, I think, to some extent in the 1970's, one uses the bank as an export promotion vehicle, then what you have or what you risk having is simply a direct subsidy of some considerable amount of money which has the effect of reducing the price and permitting companies to be more competitive.

What you have then is a choice between trying to equalize or level the playing field or having a direct export promotion subsidy. I think in the 1970's there was a great deal of export promotion subsidy independent of what was going on in other countries.

CREATION OF WAR CHEST

Senator INOUYE. In 1986 we passed amendments. In one of them we developed this war chest. To what extent have you utilized this war chest, and has it been successful in bringing down unfair foreign competition?

Mr. BOHN. In 1987, of the $100 million that was passed we used roughly $78 million of that. In 1988 we used another $8 million. So of that 1987–88 period we used about $86 million of the $100 million.

So far this year, in terms of outstanding offers which have not yet been awarded and may not be awarded—it is question of competition—we have committed about $47 million of the second $100 million that has been authorized.

I think it has been effective in two senses. It has been effective in terms of the purpose of the original appropriation which did permit us to go out and, if you like attack some of the more egregious offenders, particularly the French and in a couple of cases the Japanese. I think that was very effective in terms of bringing the French and others to the bargaining table in March 1987.

We did, in fact, achieve agreement to increase the grant element or the subsidy level in the consensus operation from 25 percent as it was before to 30 percent in July 1987, and next month it goes up to 35 percent.

The theory is that because it will increase the cost to a government to subsidize export credits that, therefore, they will do fewer of them. I think we did in fact get an agreement that is going to make it more expensive.

What I am seeing, however, and it is kind of discouraging, is that the level of so-called mixed credit offers is really increasing rather than decreasing. There is another $1.5 billion in 1987 over 1986.

It is too early to tell whether we are going to get some kind of discipline in this area. We think we have achieved some with the war chest, but in my conversations with various export credit agencies and with members of the exporting community, what we are finding is that there is a lot of money being used either under the aid banner or under the export credit banner to support industries from other countries. The amount of that is increasing rather than decreasing.

U.S. LENDING EXPOSURE IN WEALTHY COUNTRIES

Senator INOUYE. The following question is one that I am certain will be asked by several of my colleagues.

Your 1987 annual report lists the bank's total exposure in the following countries as of September 30 of last year: Syria, $965,732; USSR, $169,922,312; Cuba, $36,266,518; Ethiopia, $67,912,000; Saudi Arabia, $81,519; Kuwait, $12,972,000; and Bahrain, $748,000.

The question is why do we have to finance export to businesses in three of the world's wealthiest countries, Saudi Arabia, Kuwait and Bahrain?

Mr. BOHN. Well, in the case of Saudi Arabia and Kuwait, we have not done much business for some considerable period of time. We have principally done guarantees and insurance. It really becomes a question of competition, and it typically becomes a question of, at least historically, competition on the aircraft side.

For example, this competitive need was demonstrated in the case of Japan where a year or so ago we were asked to finance either on a guarantee or loan basis sales of aircraft to Japan.

We find ourselves in this odd situation, particulary in the case of aircraft, because of the aggressiveness of the airbus industries and their financing agencies that put our American exporters at a disadvantage.

What we try to do when we hear about competitive transactions is to get either a common line with other export credit agencies or try to get them not to finance it at all. At the end of the day, however, if in fact our companies are at a disadvantage vis-a-vis the export credit support from other countries, we try to be competitive.

It does provide an odd spectacle, I confess.

Senator INOUYE. Will you provide us in some detail the nature of the exposure of the bank to places like Syria, Cuba, Ethiopia and the Soviet Union?

Mr. BOHN. Sure. Most of that is cumulative, Mr. Chairman. We have not done any transactions in those countries for some time.

Senator INOUYE. Do you have any prospect of recovering past notes as you have noted made to Syria, Cuba, Ethiopia and Saudi Arabia?

Mr. BOHN. If I had to hazard a guess, Mr. Chairman, I would say the likelihood of recovering the loans to the Soviet Union is excellent.

Syria, I do not know.

With Cuba, it will probably take a change of administration, Cuban administration, not U.S. administration, and a kind of rehabilitation of that economy.

Ethiopia is suffering from a system which, as long as it continues to operate the economy in the way it is being done, cannot hope to repay anybody. We are, as you know, now prohibited by law from doing any further business with Ethiopia. Even if we were not, the economic system is such that I do not see the capacity of that economy being able to support future lending until it goes through a rebuilding cycle.

Senator INOUYE. I think it would be very helpful if you could provide us with information, because I am certain they will ask me this, regarding the Soviet Union.

[The information follows:]

CUBA

Exposure: Eximbank's exposure in Cuba as of May 31, 1988 was $92.5 million. This exposure was composed of outstanding principal payment arrears of $36.3 million and accumulated interest arrears of $56.2 million. The exposure stems from five direct credits during the 1950s to Cuban companies which were nationalized after Castro came to power.

Outstanding Transactions	Date Approved	U.S. Export	Exim Portion	Outstanding Balance
		($ Million)		
Cuban Electric Co.	03/29/51	24.00	24.00	44.95
Compania Cubana Primadera	05/03/56	1.50	1.50	3.27
Trafico y Transporte	11/08/57	0.10	0.10	0.08
Cuban Telephone Co.	10/31/57	17.50	17.50	44.07
Juan Segismundo Pons Cuesta	06/26/58	0.03	0.01	0.03
Totals		43.13	43.11	92.46

Repayment Experience: The Castro regime ceased payments on indebtedness to Eximbank shortly after coming to power in 1958.

ETHIOPIA

Exposure: Eximbank's exposure in Ethiopia as of May 31, 1988 was $56.2 million, stemming from four transactions, of which three were for Ethiopian Airlines. The fourth transaction financed the expansion of a hotel owned by Hilton International. The May 1984 transaction for Ethiopian Airlines was stand-by expropriation insurance which will be activated only if Lloyd's of London is unwilling to renew its 3-year expropriation insurance policy. The first renewal, after the initial 3-year period, took place in 1987, and Eximbamk's cover remains on a stand-by basis.

Outstanding Transactions	Approved	U.S. Export	Exim Portion	Outstanding Balance
		($ Million)		
Ethiopian Airlines	11/13/78	40.1	16.0	5.9
Ethiopian Airlines	02/24/81	19.1	9.5	8.1
Development and Hotel Company	12/13/83	5.0	3.3	2.2
Ethiopian Airlines*	05/01/84	113.1	48.1	40.0
Totals		177.3	76.9	56.2

* Stand-by expropriation insurance.

Repayment Experience: Eximbank has had an excellent repayment experience with obligors in Ethiopia. All payments are current.

SYRIA

Exposure: Eximbank has no exposure in Syria.

Repayment Experience: Because of a consistently bad repayment record by Syrian entities and because Syria's economic outlook did not provide a reasonable assurance of repayment, Eximbank ceased coverage in Syria several years ago.

USSR

Exposure: Eximbank's exposure in the USSR as of May 31, 1988 was $109.12 million, stemming from four direct credits made during 1973-74 to the Bank for Foreign Trade of the USSR. These loans were used to finance equipment for a plant to produce trucks and engines ($154 million), an ammonia plant ($180 million), an acetic acid plant ($20 million), and for construction of an international trade center ($36 million).

Outstanding Transactions	Date Approved	U.S. Export	Exim Portion	Outstanding Balance
			($ Million)	
Bank for Foreign Trade	03/05/73	342.1	154.0	25.4
Bank for Foreign Trade	02/21/74	44.5	20.0	2.0
Bank for Foreign Trade	03/22/74	80.0	36.0	7.2
Bank for Foreign Trade	05/21/74	400.0	180.0	74.5
Totals		866.6	390.0	109.1

Repayment Experience: Eximbank has had an excellent repayments experience with the USSR. All payments are current.

ELIMINATION OF DIRECT LOAN PROGRAM

Senator INOUYE. In its proposal for reducing the deficit, the Congressional Budget Office suggested once again the elimination of your direct loan program. The CBO said, and I quote, "eliminating the direct loan program would save $100 million in 1989 and $1.3 billion over the 5-year period."

What do you estimate would be the true cost to the economy of the United States if this were done?

Mr. BOHN. I would have to back up and try to do some economic speculation.

Senator INOUYE. This is all speculation. In fact, the whole program is speculation.

Mr. BOHN. Several factors have to be analyzed in order to resolve this matter. If in fact our numbers are accurate, and that is for every $1 billion of exports the Commerce Department thinks that it produces about 25,000 jobs. This number has to be factored in.

Second, one has to factor the change of and, indeed, the decline of some industries which when faced with subsidized competition simply cannot continue to expand or continue to be viable.

I think there are some very serious issues about not only which industries the impact of that decline would affect, but also I think one has to consider simply recognizing that in the future exports will be an increasingly important part of the composition of the gross national product. It simply has to be that way if we are going to get out of some of these deficits that we face.

Without that kind of support, particularly in areas which have been traditional markets for us, namely Latin America, and within which companies in this country simply will not do business because they cannot do business without government support at this point, I would submit that the negative impact would be quite substantial.

We are, as you know now, in the happy situation of getting more money paid back every year than we are in fact putting out. We are good guys on the budgetary ledger sheet by about $1 billion this year and by about $1 billion in 1989. So in terms of budgetary accounting, we are actually contributing to our budgetary surplus.

That, of course, comes from loans that were made some considerable period of time ago. I think that we are on the verge of a very important expansion in exports, and I would hate to see what I am anticipating abroad; namely, a great increase in export support on behalf of companies in other countries. I would hate to see us be disadvantaged both from an industrial structure point of view but, perhaps more importantly, at a time when exports are going to have to play an increasingly important part of generating growth in this country.

TRANSACTIONS WITH SMALL BUSINESSES

Senator INOUYE. In your remarks, you noted the pressure on your staff, the demand of staff time, and you cited one of the reasons of the necessity of dealing with less sophisticated companies who are not knowledgeable about banking transactions and practices.

Is this to suggest that most of your business is with rocket corporations and you are having problems with smaller businesses?

Mr. BOHN. Traditionally, Mr. Chairman, most of the business of the bank I would say for most of the bank history has been with the very large U.S. companies. That is not surprising because it is the large companies that were first in the export market. It is the large companies that are engaged in telecommunications and in transportation equipment and all of that kind of thing and agricultural exports and the rest.

It is also not surprising because the traditional business of the bank had been project building, building ports and power plants, that kind of thing.

With the energy crisis and with the kind of decline that we have seen in the important areas of the world that have been important to the American exporter, particularly Latin America but also some countries in Asia, that business has simply changed. We do not do much project business anymore. What we do is essentially product support.

Second and perhaps more important, beginning in May of last year we made a corporate decision to concentrate all of our energies to try to get a wider spectrum of American producers engaged in the Export-Import Bank program. It is fine for a large company which has a staff either here in Washington or has a cost effective way to put people on their staffs who know the programs. What we have tried to do is to make up for the banks who had traditionally provided this kind of service to the middle market customer but who are not now interested in doing export credit.

So what we have had to do is to concentrate on a middle market smaller company, less sophisticated market without the benefit, in large part, of traditional suppliers of that information; namely, the banking system. So we have had to spend a lot more staff time in educating them in finding out how to work with the cities and the States. We had to completely revise our programs and reorganize our bank with the idea of dealing with a less sophisticated market to begin to get them involved.

Many of the small and medium size companies in this country have enormous promise in the exporting business, but it is very complicated for them. The average small businessman and even the average medium size businessman is so busy doing it that he does not have much time to think about the complexities of exporting. We have not developed in this country an intermediation system akin to the Japanese trading company.

The net result is that we are trying through our programs build with the States, with the cities and with some of these new and smaller companies this intermediation system to help them get into the trade business. It is a lot more labor-intensive to do that.

INTERMEDIARY TRADE BUSINESS

Senator INOUYE. What percentage of your business would be involved in that intermediary trade business?

Mr. BOHN. Small business represents about two-thirds of the business that we do, but that statistic is probably not very helpful.

I think the thrust of your question is of the numbers of people on the staff, how many are engaged in working with this group. My guess is on the line divisions probably 65 to 75 percent. I am not including the staff support people.

Senator INOUYE. I have many other questions of a highly technical nature which I would like to submit to you for the record.

Mr. BOHN. I would be happy to.

Senator INOUYE. Senator Mikulski, do you have any questions?

LOSSES AS RESULT OF NEGATIVE INTEREST RATES

Senator MIKULSKI. Thank you, Mr. Chairman. You asked two of my key questions, which is, one, why the total losses of $.5 billion. I understand you, Mr. Bohn, attributed that to negative interest rates.

Mr. BOHN. Yes, Senator. In this last year there was a peculiar additional $121 million loss, which is the function of a very peculiar process whereby when we get loans repaid and we turn around and pay off our high interest rate borrowings, we are assessed by the Treasury a prepayment penalty. It has no bookkeeping effect or no impact on the budget or anything else. It simply shifts from one entity to another this particular interest rate fee or penalty.

As you will recall, we were required last year to sell about $1 billion of our loans by Congress. We did in fact do that and had the additional blessing of having to cough up an additional $121 million on our financial statements for what I would call internal bookkeeping reasons.

Senator MIKULSKI. I know that the chairman has gone into that and also gone into the fact that a good bit of your activity has been with the big boys. At one time I know it seemed that a major part of

Eximbank was claimed to have been a credit union for Boeing. Now I know that you are trying to diversify, and I think we are going to be watching that very carefully.

I am appreciative of the work that you are doing in line with your city-State partnership program, and that has been very helpful, but I want to ask a more fundamental question.

NEED FOR FEDERAL TRADE FINANCE BANK

We have been told in this administration and the private sector continues to preach about let us not have government intrusion and so on. Why does the government have to be in the banking business at all? Why do we need you? Why should all of these people who want to go out and buy things and so on just not go out and do it? Why do we need a Federal trade finance bank?

Mr. BOHN. Well, Senator, let me answer in two parts. One, I agree with you.

Senator MIKULSKI. Why do they not just go to private banks?

Mr. BOHN. There are two answers. Let me back up and answer the question in a different way, because your question is really a very fundamental one.

Senator MIKULSKI. It is a very fundamental question.

Mr. BOHN. What we face, what the American exporter faces, is competition that is heavily subsidized by the taxpayers of other countries. When the American exporter sells into a country like China, he or she is not selling based on price and quality alone. They are selling on the basis of subsidized competition.

For example, a sale of a piece of heavy equipment to China is not merely competing on the price of that equipment but also on the financing package. In order to even get to the bidding table they have to come in and be able to say we can get subsidized government financing. Otherwise, they are not even permitted to bid, and that is true in a number of countries.

In addition, not only is an export credit agency an export credit agency, but the terms of the loans that are supporting other governments' exports range from 3 percent for 40 years to outright grants. We lost a deal to the British government who simply came in with a 100-percent grant. It is awfully hard to compete on that basis.

So our principal role is to try to equalize this kind of competition. We have done our very best to try to get everybody out of the business that we are in. We simply have been unsuccessful.

Then the question is if we are not going to get everybody else out of the business, should we at least try to level the playing field; should we at least try to equalize the competition so that the competition takes place on the basis of price and quality. We take elaborate pains to make sure we are not subsidizing the price of an American export. That is not our business. Our business is to equalize the export financing support.

The second answer to your question is, I think, that the American banks for what I am sure are laudable reasons simply are not prepared to take the kind of aggressive foreign credit exposure that other governments and other banks do.

We find, for example, that fully a third, if not more, of the banks that are supporting American exporters in this country are foreign banks. So we find ourselves in a position of here we are at a time in our country where the trade deficit and the budget deficit are extremely important; where exports are an increasingly important part of the GNP that we need to grow in; a time when our institutions are, at least to some extent, moving in a different direction and at the same time institutions in other countries, that is other governmental institutions, are becoming more and more aggressive in competing in third world markets.

As if that were not enough, much of the export growth in the 1970's took place in countries like Latin America and where now again you find they are beginning to slowly come out of the debt crisis, but it is going to be a long time.

Faced with regulatory pressures and the rest, the American banking system is just not going to increase its exposure. I cannot quarrel with that. That is a corporate decision that the private sector makes. But those really are the reasons that we are around.

If, as you allude, it were possible to simply say we will get out of it if everybody will get out of it, I would be the first person to do that.

LOOK INTO OVERALL FOREIGN OPERATIONS FUNDING

Senator MIKULSKI. Mr. Chairman, I will not pursue this, but I know our colleagues in the House and you, too, are interested in a major look into our overall foreign operations funding. I think this is a subject that when the new administration comes in we really have to come back to.

I am not trying to take you out of business, but I think we just have to look where we are going with our money.

Senator INOUYE. I am glad you brought this up, Senator, but I have noted that it is not a very easy question to resolve because, for example, in another aspect of our economy, shipping, we are competing with hundreds of shipping countries, many of them almost fully subsidized by governments as part of a government operation.

The people of the United States support a program which is unique in the world. This country is the only one that puts out to bid the carriage of our mail. Now, that is unheard of in other countries. For example, mail from London would be carried on British ships to the United States. Mail from the Soviet Union obviously is going to be put on Soviet ships; mail from Japan on Japanese ships.

We have decided in the name of free trade and enterprise we are going to put it out for bid, and our companies just cannot compete. So that may be of interest.

I think in the last 8 years mail across the Atlantic has been carried by the Polish steamship company and before that the Soviet steamship company. This is mail going to NATO.

I have been trying to suggest to the administration that maybe the time has come for us to insist upon carrying our mail; but that is what we have to live with.

There is another matter that we usually avoid because it is so embarrassing. By law, at least half of our foreign aid goods, Food for Peace, would be carried on foreign vessels because we go by bid. So you can conjure up the spectacle of grain from the United States that we have purchased with our tax dollars being placed on a Soviet ship and shipped off to Africa. So the stevedore unloads the ship, and he looks at the flag and says thank you, comrade. But we want to keep our expenses down.

I think this matter must be fully discussed by the next administration and come up with some rational policy that we can explain to the people of the United States. The way it is now, I have difficulty and at times embarrassment.

I thank you very much, sir.

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF DEVELOPMENT RESOURCES FOR LATIN AMERICA AND THE CARIBBEAN

STATEMENT OF TERRENCE J. BROWN, DIRECTOR, OFFICE OF DEVELOPMENT RESOURCES FOR LATIN AMERICA AND THE CARIBBEAN, AGENCY FOR INTERNATIONAL DEVELOPMENT

TRADE CREDIT INSURANCE PROGRAM

Senator INOUYE. Our next witness is the Honorable Terrence J. Brown, Director of AID, Office of Development Resources for Latin America and the Caribbean.

Mr. Director, welcome, sir.

Mr. BROWN. I have a few brief remarks, Mr. Chairman, extracted from my written testimony, a little background into the Trade Credit Insurance Program.

The Trade Credit Insurance Program, TCIP, was the result of the 1984 National Bipartisan Commission on Central America's recommendation that a mechanism be provided to restore adequate levels of U.S. commercial bank credit to the private sectors in Central American countries in response to the severe economic crisis facing that region.

TCIP is essentially a bank-to-bank program in which lines of U.S. dollar credit between U.S. banks and participating Central American banks are insured, thus eliminating for the U.S. Banks the risks of inconvertibility, temporary shortage of foreign exchange or nonpayment.

The program was originally authorized in October 1984 for a 3-year period. It was subsequently extended through September 30, 1989.

Under TCIP, the private sector firms in Costa Rica, El Salvador, Guatemala and Honduras arrange to import spare parts, raw materials, equipment or agricultural inputs from the United States through their local banks under dollar credit lines extended by U.S. banks.

The U.S bank is insured by the Export-Import Bank. A.I.D. guarantees any loss by Eximbank. The participating country or its central bank accepts the obligation to repay.

The procedures are uncomplicated, very much paralleling normal commercial transactions, and repayment takes place within 12 months. To date, there have been no defaults under the program and no payments by A.I.D. to Eximbank.

By March 1988, a cumulative total of $454 million in letters of credit have been issued under TCIP. Progress in utilization of TCIP has been notable during 1987. Between February 1987 and February 1988, $220 million of a total program of letters of credit were issued. That is more than double the amount for the same period during the previous year. By the end of March 1988, the total has reached $238 million.

An independent evaluation of the program was undertaken in May of this year. Preliminary conclusions are that TCIP has facilitated imports of U.S. goods into Central America, that the program was a preferred mechanism for import financing, and that it allowed a more efficient management of foreign exchange in the Central American economies.

A TCIP guarantee in the amount of $200 million has been requested for fiscal year 1989. We believe that the successful growth of the program to date justifies that level of authority.

Finally, I do want to recognize the excellent program management that has been exercised by the Eximbank in implementing the TCIP. It has been a pleasure working with them.

[The statement follows:]

Statement of Terrence J. Brown

Director
Office of Development Resources for Latin America and the Caribbean
Agency for International Development

Mr. Chairman, I am pleased to be here to speak to you about the Trade Credit Insurance Program (TCIP).

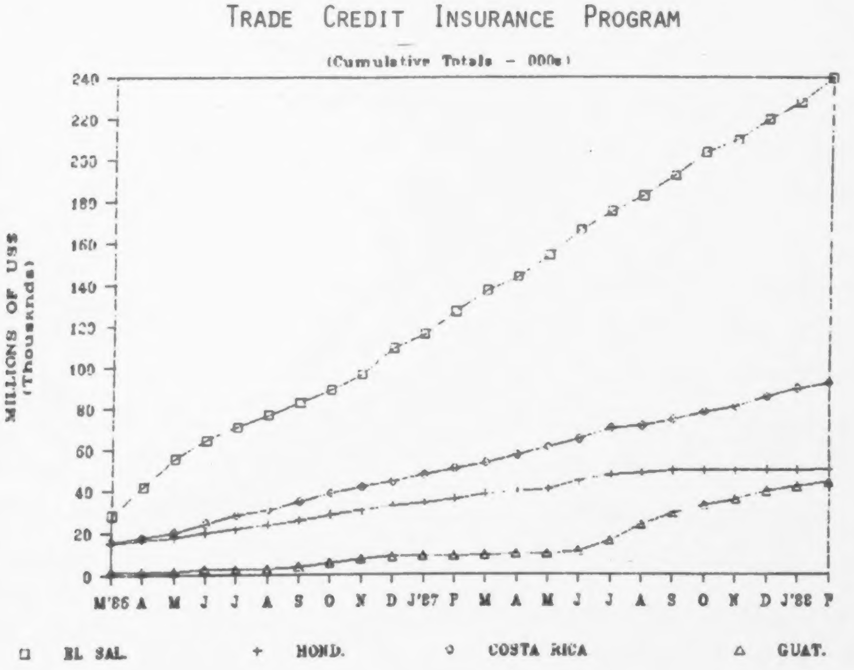
As you know, TCIP was the result of the recommendation of the National Bipartisan Commission on Central America (NBCCA) that a mechanism be provided to restore adequate levels of U.S. commercial bank credit to Central American countries which were then facing a severe economic crisis. TCIP is essentially a "bank to bank" program in which lines of U.S. dollar credit between U.S. banks and participating Central American banks are insured, thus eliminating the risks of inconvertibility, temporary shortages of foreign exchange or nonpayment. The program was originally authorized on October 12, 1984 for a three-year period by Section 224 of the Foreign Assistance Act of 1961, as amended. It was subsequently extended through September 30, 1989.

Essentially, under TCIP the private sector firms in Costa Rica, El Salvador, Guatemala and Honduras arrange to import spare parts, raw materials, equipment or agricultural inputs from the U.S. through their local banks under credit lines extended by U.S. banks. The U.S. bank credit is insured by the Export Import Bank (Eximbank). A.I.D. guarantees any loss by Eximbank, and the participating country, or its central bank, accepts the obligation to repay. The procedures are uncomplicated and repayment takes place within twelve months. Currently, $20 million of A.I.D. resources have been obligated with Eximbank and placed in a reserve fund, as required by the authorizing legislation, in the event of any default. However, to date there have been no defaults under the program. At this time, we do not believe that additional reserves are necessary.

At last year's hearings on the TCIP, this Committee expressed concern about the extent of utilization of the program compared to the levels of guaranty authority authorized. In FY 1985, $300 million of guaranty authority was authorized; in FY 1986, $250 million; in FY 1987, $275 million; and in FY 1988, $200 million. Table I represents the individual country totals for Letters of Credit issued since the inception of TCIP.

Although by February 1988 a total of $428 million in Letters of Credit had been issued under TCIP, the highest level of Letters of Credit in effect at any one time has not exceeded $100 million (October 1987).

TABLE I



Two factors are important to note, however. First, we believe the NBCCA overestimated actual credit demand to some extent and underestimated its potential supply from other sources. Second, while the program was slow to start, there has been notable progress in the past year. For example, $220 million of the program's total Letters of Credit were issued between February 1987 and February 1988. The utilization rate from February 1987 to February 1988 was more than double that for the corresponding 1986-1987 period, even through Honduras' participation was temporarily suspended in September 1987 pending repayment of arrearages due to Eximbank under another program. We believe the utilization rate will continue to grow at a modest rate now that the program is well known and importers are accustomed to using it.

An evaluation of the program by independent consultants was concluded in May of this year. The findings indicated that TCIP has facilitated imports into Central America, and that participating U.S. banks had improved their relationships with Central America because of TCIP. While other credit alternatives exist, TCIP was viewed as the preferred mechanism for financing imports in all countries and had allowed for a more efficient management of foreign exchange. The evaluation cited the extremely low cost of TCIP in comparison to its benefits and recommended its renewal at the FY 1988 level of $200.0 million. Guaranty authority in the amount of $200 million has been requested for FY 1989.

We believe the TCIP program has served as an important instrument for facilitating trade with Central American countries, whose continued economic vitality is critical to our national security. Moreover, TCIP has been possible without any direct expenditure of appropriated funds. Therefore, because of TCIP's valuable support for U.S. exports and Central American economic stabilization, we expect to request that the program be extended through fiscal 1992, which coincides with the revised NBCCA implementation period. Thank you very much.

GOAL OF TCIP

Senator INOUYE. How do you reconcile your goal of increasing LDC imports when the goal of this country and the goal of the INF is to assist developing countries to reduce their external debt by sometimes curtailing foreign imports?

Mr. BROWN. There are two parts to that question.

First, in terms of the import issue, the commodities being imported are those which would in many cases be used for productive purposes and for export, although it is not easy to tell from a list of commodities being imported whether they will be used for domestic consumption purposes or for domestically focused industries or for export.

Certainly the preliminary evaluation looking at Costa Rica concluded that a number of those commodities were those that would be used for export out of Costa Rica.

Second, the program does not provide credit. It provides financing, so that it is not a lending program that we are operating. We are not in effect increasing the debt of those countries through the program.

Normally, the letters of credit being financed are 90 to 180 day letters of credit.

DETERMINATION OF ELIGIBLE COMMODITIES

Senator INOUYE. How do you make certain that these great credits are not used to finance luxury imports?

Mr. BROWN. Early in the program the system was initiated whereby every month the participating U.S. banks submit a list of all letters of credit issued under the program by the importer and by the type of commodity and by the amount of the letter of credit issued. Those are then reviewed by the Export-Import Bank and by my staff here in Washington.

I think in the initial period of the project there was a lack of detailed information on exactly what commodities are being financed. That is no longer the case.

Senator INOUYE. We have had similar forms of programs in other parts of the world. During the Vietnam War period, I recall checking over the account in Cambodia. Most of the credits were provided for marble to be used in bathrooms and living rooms, bidets and fancy roof tiling, et cetera. This was all in the midst of a war, and it was rather embarrassing when most of these credits were being used for this type of activity.

You are sure that this is not happening now?

Mr. BROWN. Again, during the period before the system was put in place, in looking at the history of the program I believe there were some bidets actually financed under letters of credit.

Senator INOUYE. I have nothing against bidets. I think it is good for health, but not at our expense.

Mr. BROWN. I think if we keep transaction-by-transaction track of the program, that is going to be a full oversight of the program.

Senator INOUYE. So you do have a procedure whereby you monitor these things.

Mr. BROWN. Yes, we do.

Senator INOUYE. You are satisfied that it is being used for the intended purpose?

Mr. BROWN. Based on the evaluation results, preliminary results, yes, we are. We could, if you like, provide a response on exactly how that monitoring system works.

[The information follows:]

TRADE CREDIT INSURANCE PROGRAM

The TCIP can be used to pay for the importation from the United States by the local private sector, including the agricultural sector of raw materials, construction materials, intermediate goods, equipment and spare parts required for production and services related to production.

Each participating U.S. bank provides Eximbank with a monthly report of transactions under the program which indicates the name of the importer, the local bank, the amount of the letter of credit and insurance premium, as well as the products imported.

Eximbank reviews the reports and, in the event of a need for clarification, requests further information from the country or its central bank to assure that the transactions are eligible.

Copies of the reports are also provided to A.I.D.

SUCCESS OF TCIP

Senator INOUYE. You think the program is working?

Mr. BROWN. Yes, we do. In looking at the rate of growth of the program, the program operates somewhat differently in each country; therefore, it has somewhat of a different impact. We do feel it is a positive program. No defaults have occurred under the program. No additional appropriated funds have been requested, I think, for the last 2 fiscal years based on resources already provided.

EXTENSION OF TCIP AUTHORITY

Senator INOUYE. So you think we should provide it life beyond 1989?

Mr. BROWN. We are very seriously looking at that issue, and we will be back to you with our recommendations on that.

From A.I.D.'s point of view and from our preliminary conclusions, yes, I think the program merits very serious consideration for extension.

Senator INOUYE. Thank you.

Senator KASTEN. Mr. Chairman, I have no questions. The questions I was prepared to ask were similar to the ones that you just asked. I do have a question raised by the kinds of so-called luxury purchases, and it is a concern.

If we are going to go beyond the year 1989, I think it is clear that the agency and those of you who are associated with it are going to have to assure us that you have a proper monitoring system in place and that you know what kinds of expenditures are, in fact, being made.

Mr. Chairman, I was unable to be here for the Eximbank section, and I wanted to insert a statement in the record at the appropriate place basically congratulating Mr. Bohn for the work that he has done.

I think that we have seen significant progress in the Eximbank. I think we are seeing an improving relationship between the lenders and the bank and the bank and the Congress. I think we have done very, very well over the last year or so, particularly under his leadership. I have a statement that I would like to insert at an appropriate place in the record immediately preceding the Eximbank testimony.

Senator INOUYE. Without objection, so ordered.

Senator KASTEN. I thank you.

Senator INOUYE. Thank you very much, sir.

Mr. BROWN. Thank you.

U.S. TRADE AND DEVELOPMENT PROGRAM

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

STATEMENT OF NANCY D. FRAME, ACTING DIRECTOR, U.S. TRADE AND DEVELOPMENT PROGRAM, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

ACCOMPANIED BY LISA DESOTO, ASSISTANT DIRECTOR

INTRODUCTION OF WITNESSES

Senator INOUYE. Our next witness is the Honorable Nancy D. Frame, United States Trade and Development Program.

I welcome you, Madame. I was hoping that I would be able to refer to you not with the "acting" in front of the "director." When are they going to come to their senses and make you director?

Ms. FRAME. I do not think that is going to happen, Mr. Chairman, but I appreciate your support.

Senator INOUYE. You have been doing all the work.

Ms. FRAME. Somebody has to do the work.

Mr. Chairman, Senator Kasten, I am very pleased to be here today to testify in support of the Trade and Development Program.

I am accompanied today by Miss Lisa DeSoto, who is the Assistant Director at TDP.

Senator INOUYE. There are no men in your organization?

Ms. FRAME. We are all women, right.

No, we have very good project officers, for the most part all men.

ACTIVITIES OF TDP

TDP is an independent component agency of the International Development Cooperation Agency. It is unique among foreign assistance programs in the government because of its responsibility and authority to conduct a program that integrates both trade and aid.

Recognizing the need for an integrated approach, Congress created TDP with substantial flexibility to quickly and innovatively implement its program. Through the support of Congress, we are pleased to report that we continue to enjoy the flexibility and ability to attempt new approaches to maximize exports and development.

TDP operates in partnership with the U.S. private sector. Through the targeted use of TDP funds, we enable U.S. firms to assist in the planning and design of major overseas development projects. By doing so, TDP increases the likelihood that American goods and services will be procured for use in the project and exported to the host nation.

Sometimes just the fact of TDP's support is enough to convince the host government that the U.S. company is a serious competitor for a project, a competitor with the backing of the U.S. Government.

In return, the U.S. private sector helps TDP to stay informed about current market trends, project status, host government priorities, industry innovation and the U.S. competitive position.

TDP also works closely with other U.S. Government agencies that have trade, aid or investment responsibilities. These agencies include the U.S. and Foreign Commercial Service, particularly overseas; the International Trade Administration; AID; OPIC; and the U.S. Trade Representative's Office. We also work closely with the Eximbank and with the multilateral development banks.

We share information, and we attempt to leverage the benefits of our respective programs whenever possible.

When Congress created TDP in 1980, our learning curve was steep. As an agency it took TDP a year or two to get its sea legs. Yet even during that early period, funds spent by TDP were generating exports. Because of the long lead time associated with project implementation, some of the results of those early projects are only now bearing fruit.

Last year TDP commissioned an independent analysis of the return on the $93 million spent by TDP since its beginning. This analysis was conducted by Ruth Ruttenberg and Associates, and it demonstrated very positive results.

The $93 million that TDP had spent had resulted in over $1.2 billion in exports as of March 1988.

Further, the analysis demonstrates that during the next decade, further exports associated with the activities funded by TDP to date will result in at least an additional $7 billion. This is a conservative estimate. This $7 billion represents a 75-to-1 return on Congress' investment in TDP, a remarkable return by any investor's standard.

As we continue to increase our expertise and develop new methods to implement the program, we hope to improve that ratio. I would be pleased to share with the committee staff the results of that study.

We believe this track record demonstrates the ever-increasing expertise of TDP in identifying and targeting projects with high export potential and high potential return on the TDP investment. It is also a strong statement which supports the commitment Congress has made to TDP.

FISCAL YEAR 1989 BUDGET REQUEST

TDP has grown from $4.9 million in fiscal year 1980 to $25 million in fiscal year 1988. The administration's request for TDP in fiscal year 1989 is $20.4 million. The appropriation of that $20.4 million will enable TDP to continue to manage approximately 350 projects out of the total of over 500 projects that we have financed since fiscal year 1981; to process and review approximately 250 new projects which at any given time are under consideration by TDP; and to develop, approve and award some 90 projects in fiscal year 1989.

Concerning the nature of the activities that are authorized by Congress, we will continue to pursue our congressional mandate to operate in countries where the United States does not have a bilateral assistance program such as China, Taiwan, Colombia, and Zimbabwe. We also anticipate significant programs in Thailand, Turkey, India, and the Philippines.

We have, as is consistent with our congressional mandate, continued to focus attention on natural resources of strategic interest to the United States.

We have initiated several activities related to the export of value-added wood products from the United States.

We continue to explore the use of export-related training as a tool to make the United States more competitive.

Finally, as instructed by Congress in the most recent continuing resolution, we have begun to explore the potential for innovative cooperative activities with the States.

STATE INITIATIVE

I would like at this time to add a few comments about this new initiative that TDP has embarked upon with the States. Mr. Chairman, we believe that there is a great potential here for TDP to leverage its funding to work with the State export organizations. The States, of course, have very different budgets and different legislative authorities. Often there are many organizations within a State which are working within that State to promote exports. They all have different awarenesses of the role of exports on the State and the U.S. economy.

To respond to Congress' wishes, we have targeted projects with some States where we knew we could register some short-term accomplishments. Those projects that we have already obligated are listed in our congressional testimony. But we have devoted much of our time so far to learning how the States operate and educating them on how TDP operates so that we can begin to work together in cooperative and mutually beneficial ways.

We are very, very optimistic that this is going to be a wonderful new initiative which will be an effective use of TDP funds. In future years we expect to see that this potential has been fulfilled.

SUCCESS STORIES

With your permission, Mr. Chairman, I would like to just highlight a couple of extraordinary examples of U.S. private sector success stories overseas, successes which were only possible because of the front-end TDP funding.

In 1984, TDP financed a $500,000 study which evaluated the use of a fiber-optic submarine cable versus telecommunications links in Colombia. The study recommended the fiber optic cable as the most cost effective alternative, and based on the study the Colombians decided to move forward with a fiber-optic cable link. Last year they signed a $130 million contract with AT&T to plan, supply and install the cable.

Now, not all of the projects show such dramatic and direct results from the studies that we do. We, however, attempt to measure our success based on the direct results of the studies that TDP finances.

But perhaps the best measure of our success is not just simply winning a project for U.S. companies, but it is the opportunity that we provide to U.S. companies to get into a marketplace which they might not otherwise have the opportunity to get into.

I say that because there is, as you know and as Mr. Bohn has indicated to us, so much subsidized financing available today from other governments, particularly for major projects, that it makes it very difficult for U.S. companies oftentimes to compete.

To give you an example of these more indirect results, we funded a $275,000 study in the Ivory Coast to do a survey of telecommunications needs. COMSAT did the study. As you know, the Ivory Coast has been dominated by a French commercial presence.

This small study enabled COMSAT to not only know what all the telecommunications needs were in the Ivory Coast but to get into the various ministries, other ministries beyond telecommunications, that prior to that time they had no knowledge of.

As a result, they have received a $2.3 million contract from the Ministry of Telecommunications, and they are currently negotiating a much larger contract with a completely different ministry.

So this is really a good example, I think, of how that little study gave them a presence in the country that they would not otherwise have had and, because they did a good job, there were spinoff effects.

A representative from the engineering firm of Black and Veatch put it very succinctly when she recently stated to a TDP project officer that a TDP study that they had done in Thailand for the Electricity Generating Authority had given them a foothold in Thailand, and I quote, "that will carry us into the next century."

Mr. Chairman, this concludes my remarks. I would be very happy to answer any questions.

[The statement follows:]

STATEMENT OF
NANCY D. FRAME, ACTING DIRECTOR
U.S. TRADE AND DEVELOPMENT PROGRAM
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

I. OVERVIEW

Mr. Chairman and members of the Subcommittee, I am pleased to have the opportunity to testify today in support of the U.S. Trade and Development Program. My testimony will focus on the implementation of the FY 1988 budget and plans for FY 1989, the methods and tools used by TDP to implement its program, and the indicators of the success of our activities.

The U.S. Trade and Development Program (TDP) was established on July 1, 1980 as a component organization of the International Development Cooperation Agency. TDP is unique among foreign assistance programs because it attempts to meet both U.S. trade and aid objectives simultaneously. TDP's mandate is to promote U.S. exports in a manner which also fosters economic development in the third world.

TDP operates in partnership with the U.S. private sector. Through the judicious use of TDP funds to enable U.S. firms to assist in the planning and design of major overseas development projects, TDP increases the likelihood that American goods and services will be procured for use in the projects and exported to the host nation. This use of TDP funds helps to mitigate the impact of foreign subsidies and to improve the competitive position of United States firms in overseas markets. It is the wedge that can open up markets to U.S. firms that would otherwise go to foreign competitors.

The means to achieve these objectives are authorized under Sections 661 and 607(a) of the Foreign Assistance Act of 1961, as amended:

--Grant-funding for feasibility studies and other project planning services to be undertaken by U.S. private firms and government agencies; and

--Authority to engage U.S. Government agencies in overseas projects on a host country financed ("reimbursable") basis.

Almost all industrialized countries today have bilateral assistance programs which contribute to the development process. Most of these countries also use their assistance programs to create substantial business opportunities for their export industries. Increasingly they promote such opportunities through grant-in-aid planning services. Although the U.S. Trade and Development Program funds are small in comparison, we believe that our careful selection of projects, attention to detail and close relationship with the private sector help to meet this competition.

Our activities cover sectors of high priority to U.S. exporters and foreign governments. They include industry, waste management, telecommunications, transportation, energy development, educational technology, and natural resources.

II. FY 1989 BUDGET REQUEST

And now, with your permission, I would like to discuss the

Administration's budget request for FY 1989, TDP's activities over the last fiscal year, and TDP's plans to implement its statutory objectives during FY 1989. For Fiscal Year 1989, the Administration requests $20.4 million for TDP. The $20.4 million request will enable TDP to:

-- Continue to manage approximately 350 projects out of the total 480 projects TDP has financed since FY 1980;

-- Continue to evaluate the 480 projects financed by TDP from 1981-1987;

-- Process and review approximately 250 new projects (which at any give time are being considered by TDP).

-- Develop, approve and award some 90 projects in FY 1989.

With resepct to the nature of the activities authorized by Congress:

-- We will continue to pursue our Congressional mandate to operate in countries where the United States does not have bilateral development assistance programs such as China, Taiwan, Colombia and Zimbabwe. We also anticipate significant programs in Thailand, Turkey, India, and the Philippines.

-- We have, as instructed by Congress in the most recent Continuing Resolution, begun to explore the potential for innovative cooperative export promotion activities with the States consistent with TDP's program.

-- We will continue, consistent with our Congressional mandate, to focus attention on natural resources of strategic interest to the United States.

-- We have initiated several activities related to the export of wood products from the U.S.

-- And finally, we continue to appreciate the flexibility granted to TDP by the Congress, and intend to use that flexibility to work innovatively with the U.S. private sector, our trading partners, and other agencies of the States and the Federal Government to continue to promote exports in support of the U.S. economy. We believe we have a track record which speaks well for the mandate entrusted to us.

In implementing TDP's statutory mission to assist developing nations and U.S. exporters, the TDP record of success speaks for itself. TDP recently commissioned a study, undertaken by an independent contractor, on the impact of TDP activities on U.S. exports. Since FY 1980, TDP has financed the planning of some 480 projects in 91 countries. TDP-financed activities have led to over $1.2 billion in exports from the United States. It is estimated that by 1998, TDP activities funded to date are likely to generate an additional $7 billion in exports. I would be pleased to share the results of that study with the Committee.

TDP APPROPRIATIONS

In comparison with most U.S. Government agencies, TDP is a relatively young program. We have experienced rapid growth since our establishment in FY 1980. Since FY 1982, TDP has received a separate line item authorization and appropriation pursuant to Section 661 of the Foreign Assistance Act of 1961, as amended. The table below tracks this growth:

(in millions of dollars)

Fiscal Year	80	81	82	83	84	85	86	87	88
	4.9	5.5	6.9	10.5	16.3	21.0	18.1	20.0	25.0

As the table indicates, TDP's budget grew by approximately 510 percent between 1980 and 1988. Historically, operating expenses have been kept at a low level in relation to our program funds. We anticipate that they will remain so.

III. CRITERIA FOR TDP FUNDING

To assist the U.S. contractor and equipment manufacturer who wishes to provide products and services to major capital projects overseas, TDP relies on a variety of sources of information, including the U.S. and Foreign Commercial Service officers in host countries; information provided directly by the host government; information provided by U.S. companies doing business overseas; other U.S. Government agencies; State export development agencies; publications; and Congressional inquiries and direction. To initiate involvement of the U.S. private sector at the grassroots level, TDP has a variety of tools it may employ. Among those tools are:

The Definitional Mission: When a potential project which appears to have significant export potential for the U.S. is identified, we may send a definitional mission of U.S. experts to the host government to determine (1) the nature of the project; (2) the priority of the project to the host government; (3) the likely cost of the total project; (4) the nature of the likely financing of the project; (5) the need for a full scale feasibility study and the requirements for such a study; and (6) the U.S. export potential and an identification of U.S. sectors and companies who could compete for goods and services on the project. Based on the recommendation of the Definitional Mission team, the advice of the U.S. Embassy in the country and the interest of the host government, TDP may decide that substantial U.S. involvement is possible if TDP makes a grant for a feasibility study. Almost all of these studies are performed by small businesses.

The Feasibility Study: This study is a standard engineering and economic tool which enables the foreign government to determine whether or not a project is technically and economically feasible. The feasibility study is a detailed document which also identifies products and services which are likely to be procured for the project -- in this regard it is an invaluable tool for U.S. firms.

TDP-Funded Studies Library: TDP has an extensive library which contains all the Definitional Mission reports and feasibility studies conducted with TDP funds in recent years. We invite members of the U.S. business community to use this library to further their export interests.

The Overseas Private Investor Program: Our private investor program has recently been restructured to ensure a maximum return on TDP's investment. Under this program, we will provide a four-year no-interest loan for up to 50% of the cost of the feasibility study to a U.S. private investor who intends to invest in a developing country. The U.S. investor must plan to maintain the majority of equity in the project and the value of the project must potentially generate exports no less than 35 times the amount of the feasibility study.

Technical Symposia: We have sponsored a variety of planned technical symposia geared to the needs of specific export industries of the U.S. Generally conducted in cooperation with and co-funded by the industry or other U.S. Government agencies, these symposia have helped to focus the attention of both the host nation planners and the potential U.S. exporters on future services and equipment needs in a given industry.

Orientation Visits by High Level Foreign Officials: ("Reverse Trade" missions). Although TDP does not fund traditional trade missions to other nations, we may fund visits to the U.S. by high level foreign officials. These officials are carefully selected because they represent procurement authorities interested in purchasing equipment and services in a specific industry where the U.S. is highly competitive or needs an entree to become so. These activities are usually co-funded by U.S. industry. We are also planning several such missions in cooperation with the States.

Trade-Related Training: We are exploring several initiatives in this area, including the award of a training grant to a host government as a final incentive to select a U.S. firm. The training is offered only in a highly competitive procurement where other governments are offering concessional financing to support their firms. We are also examining methods by which actual export results can be attributed to trade-related training. If targeted properly, U.S. training has the potential to affect the attitudes of foreign buyers towards U.S. goods and services in a significant and positive way.

Using these methods, TDP devotes approximately 90 percent of its program budget to the funding of project activities in the public sector. The remaining 10 percent is devoted to overseas private sector investment projects.

As in the past, our focus is on priority development projects in key economic sectors of developing countries which coincide with U.S. interests and are most likely to lead to sales of U.S. goods and services. On a case-by-case basis, the criteria we use to determine TDP-funded activities include: country eligibility, U.S. export potential, project financing availability and development priority.

The challenge for TDP is to remain current concerning developing countries' priorities and technology needs, to monitor the activities of foreign competition in the early planning stages of a country's development efforts and to create opportunities for U.S. firms to participate in the planning of projects. When we meet these objectives, we can provide appropriate solutions to the capital development problems of low and middle-income country governments and at the same time serve the U.S. private sector firms.

TDP is focusing particular attention on several special initiatives which we believe have the potential to become major developmental export markets. These special initiatives are in the areas of training, waste management and privatization.

Training: We believe there is a growing realization among the development banks, international development organizations, host governments and exporters that training and education can have a major impact on development and export sales. TDP is therefore testing various methods of using training grants to increase the likelihood of a U.S. contract award and exploring other ways that targeted technology training can be used to assist the U.S. private sector.

Waste Management: Developing countries and, in particular, the newly industrialized nations are becoming increasingly aware of the extremely damaging effects of inadequate waste management. The U.S. Government and the multilateral development banks are giving this sector increased attention. The effects of poor environmental management on the health and economic viability of developing countries are very serious. We recognize this area as both a developmental priority and an area in which U.S. technology is highly competitive. Therefore, TDP has given priority to projects which are focused on the management and handling of solid and hazardous waste.

Privatization: Since 1985, TDP has funded a number of studies which promote privatization efforts. These grants have assisted U.S. firms in their efforts to develop as privately held projects those that would have normally fallen into the public domain. We are working cooperatively with AID and the World Bank to capitalize on opportunities to increase the participation of U.S. firms in the power sectors and other appropriate sectors in developing countries.

In addition to the foregoing initiatives, TDP, as authorized by Congress in last December's Continuing Resolution, has undertaken a program to cooperate with the States in promoting exports. We have determined that at least four other U.S. Government agencies have State programs; that each State has different legal authorities, budgets and staff; and that while some states are quite advanced in their efforts, others are just beginning export promotion activities. To determine productive ways to work with the States, we have initiated a two-track effort.

First, we have scheduled a series of seminars to meet with State Export Development Agency representatives to explore ways in which we can work together. The first will be held the week after next, and the second in September. Congressional staff of the various States which attend will be invited to participate. Second, in addition to this systematic planning, we have also undertaken ad hoc activities with the following States and groups:

-- Hawaii: $50,000 grant for international conference and trade show on renewable energy;

-- Maryland, South Carolina and Ohio: $50,000 grant state/private sector bio-tech business opportunities conference;

-- Oklahoma, Texas, Louisiana, California: $200,000 grant for petroleum refinery business opportunities in the Pacific Rim;

-- Multi-State: $100-150,000 grant for irrigation/water distribution industries trade show with follow-up strategies; and

-- California, Maryland, Massachusetts: reviewing grant proposals for specific TDP-sponsored activities.

Because TDP did not receive this new authority until last December, and was granted the authority for one year (FY 1988), we have undertaken only activities for which we can responsibly obligate funds in this fiscal year. We would be pleased to provide the Committee with any additional information about the specifics of these activities.

IV. REGIONAL CONCENTRATION

An important project selection criterion for TDP financing is the economic condition of a country or region. TDP gives highest priority to those projects which stand a strong chance of being financed once the study is completed. Because of the strength of East Asia's economy since 1981, TDP has generally devoted at least 50 percent of its program budget to this region annually.

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-- California, Maryland, Massachusetts: reviewing grant proposals for specific TDP-sponsored activities.

Because TDP did not receive this new authority until last December, and was granted the authority for one year (FY 1988), we have undertaken only activities for which we can responsibly obligate funds in this fiscal year. We would be pleased to provide the Committee with any additional information about the specifics of these activities.

IV. REGIONAL CONCENTRATION

An important project selection criterion for TDP financing is the economic condition of a country or region. TDP gives highest priority to those projects which stand a strong chance of being financed once the study is completed. Because of the strength of East Asia's economy since 1981, TDP has generally devoted at least 50 percent of its program budget to this region annually.

The following table provides a percentage breakdown of TDP's activities on a regional basis since FY 1981:

Region	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
Africa	12%	17%	10%	10%	6%	17%	16%
Lat.Amer/ Caribbean	25%	35%	20%	20%	23%	17%	12%
Asia	50%	30%	50%	47%	50%	51%	59%
Mid. East/ Europe	12%	16%	10%	20%	15%	9%	8%
Worldwide	1%	2%	10%	3%	6%	6%	5%

TDP COUNTRY PROGRAMS

From FY 1981-87, TDP funded 480 projects in 91 countries. FY 1987 projects are listed by country in the Appendix. The following countries or regions are the top ten recipients of TDP funds for the period FY 1981-87:

TEN LARGEST COUNTRY/REGION PROGRAMS
FY 1981-87
Total Dollar Amount Obligated (thousands of dollars)

China	15,711
Thailand	7,582
Philippines	4,631
Indonesia	4,298
Turkey	4,122
Colombia	3,956
Zimbabwe	3,910
Taiwan	2,374
Tunisia	2,347
Pakistan	1,676

Based on past trends and our assessment of future commercial opportunities, we anticipate that in FY 1989, TDP will be most active in China, Taiwan, Thailand, India, the Philippines, Turkey, Colombia, and Zimbabwe.

The TDP program in China has grown from 5 percent of TDP's worldwide program in FY 1980 to almost 25% of the program in 1988. TDP has financed feasibility studies on 46 projects in over a dozen provinces in China. The studies to date have led to $70 million in exports from the United States. More significantly, the TDP program has enabled U.S. firms to develop new markets in a country that has tremendous untapped export potential.

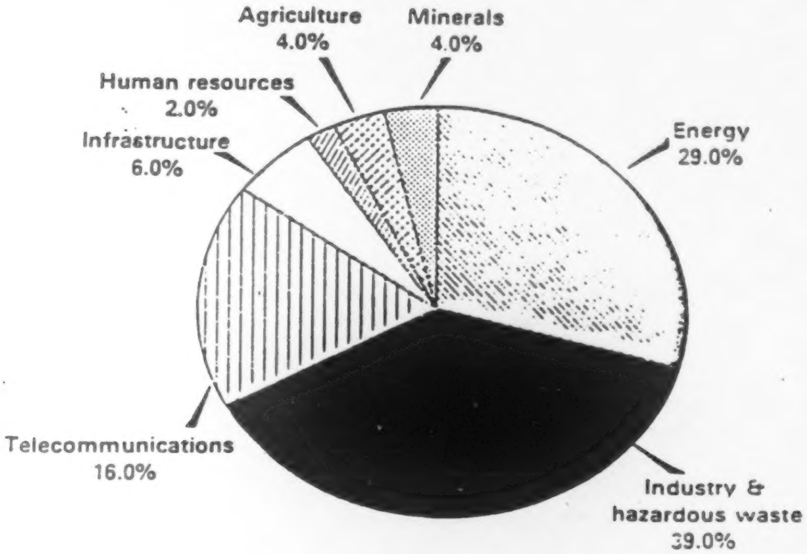
V. SECTOR INVESTMENT

Since FY 1980, TDP has concentrated most heavily on the energy and infrastructure sectors. TDP will continue to follow the development needs of the recipient countries in those areas where the U.S. has strong technological capabilities. Therefore, TDP projects a continuing emphasis on energy (estimates of total potential exports of power equipment and services to developing countries between 1988 and 2008 range from $370 billion to $900 billion), hazardous and solid waste management, telecommunications and industrial projects. TDP also anticipates an increasing emphasis on financing the training components of large projects.

The following pie charts summarize the percent of the total program by sector for FY 1986 and 1987. These sectors are representative of those which TDP anticipates funding in FY 1988 and 1989.

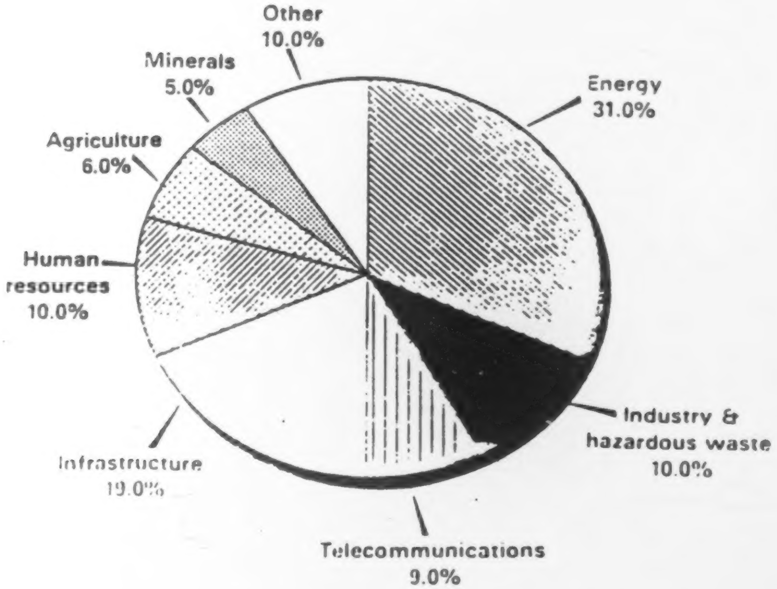
TDP Major Sectors FY 1986

% Obligated



TDP Major Sectors FY 1987

% Obligated



VI. INDICATORS OF SUCCESS

This decade has been marked by a drop in the prices of the third world's primary export commodities, exchange rate problems, recovery from worldwide recession, U.S. trade erosion, and a high level of LDC debt. In the face of these problems TDP contributes to alleviating the largest trade deficit in U.S. history.

Since its inception TDP has obligated a total of $93 million for planning major projects. Though TDP has operated for only seven full years and has had a limited budget, TDP has been responsible for generating approximately $1.2 billion in U.S. exports.

However, we would like to note that this is just the tip of the iceberg. It can take many years to reap the benefits of investment from a feasibility study. The lead time necessary to move large-scale development projects to the implementation stage can run as long as ten to twenty years before final contract negotiations and financial backing are concluded. The bulk of equipment sales will usually come toward the end of a project's development. An independent analysis of exports directly attributable to TDP intervention estimates follow-on exports of approximately $7 billion in the next ten years. Based on this projection, the U.S. investment in TDP will be returned by a ratio of 75-1, a good return by any investor's standard. This figure does not include exports indirectly attributable (second and third-generation equipment purchases) to TDP and spin-off projects, which are difficult to document.

TDP's success is reflected not only in monetary terms. Its impact on third world development, on helping U.S. firms to penetrate newly emerging markets, on building diplomatic and trade relations are all important results to be acknowledged as well.

In its early years, the TDP learning curve was substantial. As we've matured we have learned which U.S. firms, which foreign ministries, which industries in specific countries, and which leveraging techniques are most likely to generate results. In this vein, while maintaining a broad program interest in all sectors, we have emphasized targeted newly emerging markets which could easily have been lost to the competitor (i.e., pollution control and hazardous waste in Asia and telecommunications in Latin America.) Through the use of TDP funds in particular targeted sectors, market access can be achieved and U.S. exporters can obtain a market niche. A base is thus established for future market share against competitors from other industrial countries.

TDP has also mitigated declining U.S. trade trends by succeeding in specific industrial sectors and specific countries where exports have otherwise shown a decline. For example, TDP generated exports in the transportation sector despite a substantial decline in U.S. market share for civil engineering equipment in Thailand, 1980-1984. In China, where virtually all markets are just opening up TDP assisted U.S. firms in establishing a trade base. In Latin America TDP has targeted telecommunications as an industry of size and growth potential which might otherwise have been lost to the competition.

One of TDP's greatest contributions toward reversing the trade deficit is by assisting companies to establish contacts and a market presence in a country while executing a TDP-funded study. Although not all projects related to the feasibility study go forward, the companies have gained recognition and a reputation as a strong competitor. In the international market place companies repeatedly receive offers and contracts for spin-off projects related to their participation on a TDP funded project.

For example, COMSAT undertook a $275,000 telecommunications study in the Ivory Coast funded by TDP. As a result of assessing the telecommuncations needs of several government ministries and making contacts in each of these ministries, COMSAT received a $3.5 million follow-on contract from the Office of National Telecommunications with other larger potential contracts to follow. This is a classic example of how, with a small amount of front-end funding for a specific project, a company can capitalize on a TDP grant to establish relationships which will result in lucrative spin-off business.

In many instances TDP makes the difference in a U.S. firm receiving a contract award because TDP's participation represents a concrete symbol of U.S. Government support. For example, GM approached TDP with a proposal to fund a study for a progressive manufacturing joint venture in the People's Republic of China. After lengthy negotiations, it was apparent China would not go forward without some type of U.S. Government support. Therefore, TDP assisted in a reimbursable grant making it possible for this $20 million project to take place.

SUCCESS STORIES

The following stories further illustrate TDP successes.

Chile Telecommunications. In 1984, TDP funded a $350,000 three-part study to assess the feasibility of the conversion of satellite earth stations to time division multiple access, the conversion of the microwave network to a digital system, and the means to attract U.S. private investment into the Chilean telecommunications sector. Teleconsult of Washington, D.C. carried out the study. Due to the Teleconsult's positive recommendations in the study, Entel, the Chilean telecommunications company, initiated a $20 million digitalization project that will be bid in five stages over twelve months. U.S. exporters have already been awarded contracts worth $1.2 million as a result of the $2 million first phase portion of the project.

Colombia Fiber Optics. In 1984, TDP funded a $500,000 study of optimization of Colombian international telecommunications systems. The study evaluated the alternatives of a fiber optic submarine cable from Colombia to the United States or additional satellite links. Arthur D. Little carried out the study and recommended the undersea cable as the most efficient option. Colombia's telecommunications agency thereupon made its decision in favor of the fiber optic link and initiated negotiations with AT&T to plan, supply, and install the cable. In September 1987, Colombia's telecommunications agency, TELECOM, initialed a contract with AT&T for $130 million for the cable portion of the telecommunication system, $120 million of which represents U.S. goods and services.

Congo NRECA Utility Pole Reimbursable Grant Agreement. A subsidiary of the National Rural Electric Cooperative Association, NRECA International Ltd. of Washington, D.C., along with Koppers Company, approached TDP with a request for TDP to finance one-half the costs of a feasibility study for a utility pole project in the Congo. The project entailed the construction and operation of a utility pole plant employing eucalyptus trees from an existing plantation. The utility poles would be marketed in the electric distribution and telephone industries in Africa, Asia, and the Middle East. TDP funded $90,000 on a reimbursable basis. The study was positive and NRECA International Ltd. went ahead with the investment, reimbursing the United States Government under the terms of the grant. Since May 1987, $4.2 million in U.S. exports have been generated by this project.

Taiwan Mass Transit, TDP's strategy in Taiwan has been to concentrate on a few selected sectors, including the mass transit sector. The two largest urban centers of Taiwan--Taipei and Kaohsoung--have developed major traffic problems. In the 1980's Taiwan authorities became interested in mass transit as a solution to their growing traffic dilemma. Such public works projects range in cost from $15-$20 billion providing significant potential for U.S. exports. As a result, TDP has invested $1 million to provide planning studies by U.S. engineering consultants and technical orientation visits by U.S. manufacturers.

Thus far, through TDP's efforts to position U.S. firms in the mainstream of these public works projects, a consortium of U.S. engineering firms has won a general engineering contract for work in Taipei. The contract is worth over $100 million with an estimated $50 million going for U.S.-based engineering services. Of special interest is the consortium approach. For the first time, normally very competitive companies joined together to share costs and consolidate technical expertise in promoting American products. The consortium has the potential for making sales of U.S. equipment including rail cars, power packages, signalling equipment, elevators, and ticketing devices estimated at $300 to $800 million.

Nepal Hydropower Project. One of the most important aspects of the TDP program is the ripple effect of the feasibility studies TDP finances. For example, in 1986 TDP financed a $650,000 feasibility study carried out by Morrison-Knudsen of Idaho on a major hydropower facility in Nepal. Morrison-Knudsen conducted the study with a partner from the People's Republic of China. The Chinese partner was so impressed with Morrison-Knudsen's expertise on the Nepal project that the Government of China in turn awarded Morrison-Knudsen a $20 million contract for work in China. The TDP study thus gave Morrison-Knudsen significant inroads not only into Nepal but also into China, resulting in additional business to a U.S. firm.

Zhuhai Economic Zone. In 1984, TDP provided a grant of $161,777 to the People's Republic of China to enable M.K. Ferguson Company of California to conduct a feasibility study on an industrial zone in Zhuhai Special Economic Zone. One of the recommendations of the study was that a compressor factory be establisned. Based on that recommendation, the People's Republic of China purchased $4 million in construction and engineering services from M.K. Ferguson and $2 million in equipment from National Industrial Services Inc. of Missouri.

VII. ADMINISTRATION

TDP carries out its activities with a Washington staff of regional officers and one field representative based in Hong Kong. The staff stays abreast of all aspects of the project feasibility studies, including follow-up of the project implementation stage. A support staff handles contracting matters and monitors the evaluations and analysis of the program operations.

TDP activities are conducted in close coordination with the Department of State, the Export-Import Bank, the Overseas Private Investment Corp., the Agency for International Development, the Departments of Treasury, Commerce and Energy, and other specialized agencies of the U.S. Government such as the Corps of Engineers and the Federal Aviation Administration. TDP also maintains close contact with multilateral and regional development lending institutions such as the World Bank, Inter-

American Development Bank, and Asian and African Development Banks.

In a continuing effort to improve program administration and operations, TDP has taken the following actions:

--Contracted an evaluation of actual and projected exports generated from TDP-funded projects;

--Implemented a financial management reconciliation system to manage and track vital financial information for project management;

--Contracted a Project Summary Analysis of 1985 and 1986 projects;

--Contracted a computer needs assessment; and

--Contracting in process for the establishment of an in-house evaluation plan to provide standardized method of evaluating TDP achievements year to year.

VIII. CONCLUSION

As noted by the U.S. House of Representatives Export Task Force, "In 1988 the most competitive firms are more readily found in countries where companies work closely with their parent governments in such areas as export targeting and industry development." As foreign competition becomes more agressive, TDP is a vivid example of how the U.S. Government can become a partner to its private sector. We can provide the institutional, political and sometimes financial backing so that U.S. companies not only have a fairer international marketplace in which to operate, but also have the opportunity to get into markets in areas where the U.S. is the most competitive.

TDP plans to continue its targeted activities. We hope that we will continue to enjoy the advice and support of Congress in our efforts.

Mr. Chairman, we appreciate the opportunity to testify before the Subcommittee today. We would be pleased to respond at this time, or in writing, to any questions or comments you or other members of the Subcommittee might have.

CHINA

Senator INOUYE. I wish to tell you that this committee has been most pleased with the progress you have made. The cost-benefit ratio of 1 to 75 is unmatched by other agencies, so I think you should be congratulated on that.

I note from your report that in 1980, 5 percent of your time and money was spent in China, and now it is up to 25 percent. This is a huge marketplace.

From this activity, would I conclude that there are many business opportunities for American business success?

Ms. FRAME. We believe there are a lot of business opportunities there. We have devoted a large portion of our budget to financing studies in China. Many of those studies have been done just in the last 2 years. So as we begin to evaluate these projects, we expect that there will be a lot of follow-on to come. But already there have been six projects that have gone forward. We have spent $1.8 million on those projects, and there have been exports from the United States to those projects in the amount of $75 million.

So as U.S. companies get market presence, they are beginning to get business in China, and there are a lot of spinoff effects. For example, Kaiser Engineers did a TDP-funded feasibility study in China on a coal project. As a result of their being in China and working with the Chinese Ministry of Coal, they landed a major contact for another non-TDP-financed coal project. So there are a lot of indirect spinoffs by just being present and working with the ministries.

PHILIPPINES

Senator INOUYE. I am certainly aware of the intense interest held by the committee on the future of the Philippines. We have spent much time and appropriated moneys oftentimes not even requested to assist the Philippines.

I note that the Philippines now is the third country on your recipient list?

Ms. FRAME. That is correct.

Senator INOUYE. We are presently involved in working up what some have called a small Marshall plan.

Are you involved in that formulation?

Ms. FRAME. We have not been involved in the policy formulation, no.

Senator INOUYE. You have not been called upon yet?

Ms. FRAME. No, we have not.

But I might add we have been focusing very much on the Philippines. From 1980 to 1986 our program was quite small. In fiscal year 1987, last year, it went up dramatically. We had 10 projects in the Philippines, and we spent almost $2 million there.

This year we anticipate at least 10 projects and about the same amount of money. We have entered into an operating agreement with the National Economic Development Authority to regularize our program much as we have done in China. They present to us a list of projects twice a year. Our project officer just came back from the Philippines. They had presented a list of their priority projects. From that list we identified at least eight projects that looked like good projects for us from our industry point of view. So we hope to have a big program there.

Senator INOUYE. Would you provide this committee with a memo on how your agency can help the Philippines?

Ms. FRAME. I would be happy to.

[The information follows:]

THE U.S. TRADE AND DEVELOPMENT PROGRAM IN THE PHILIPPINES

From 1981 to 1986, TDP's program in the Philippines was limited. For those six years, TDP granted funds for only 16 projects. These projects concentrated most heavily upon coal/energy development. Since fiscal year 1987 and into the present fiscal year, however, TDP activity in the Philippines has increased dramatically. In 1987 alone, ten new projects were funded and ten projects are being considered for fiscal year 1988.

In 1987, TDP began working more closely with the National Economic Development Authority (NEDA) of the Republic of the Philippines. This government entity authorizes the plans and funding for the major infrastructure projects deemed imperative to the growth and development of the country. NEDA is also the liaison to the World Bank and Asian Development Bank.

In the last year, TDP has established an operating agreement with NEDA. Under this agreement, NEDA submits a list of its priority projects with the highest priority. These projects are selected from NEDA's economic development plan. TDP then begins its internal review process to determine whether the projects meet the TDP criteria for funding. Under this system, TDP is assured that the project meets a development need of the country and has the backing of the government. This ensures not only better development projects, but a better opportunity for U.S. companies to participate in or invest in the development of those projects.

Through this controlled and efficient selection process, TDP has the opportunity to position U.S. firms on the ground floor of many of the Philippines major projects. In addition, this agreement has introduced TDP to various sectors, such as toxic waste, agribusiness and transportation where U.S. firms have previously held a small market share in the Philippines.

The following is a status report on selected TDP grants in the Philippines and a list of projects currently under consideration and likely to be funded:

ACTIVE GRANTS

Laguna Lake Hazardous Waste Management--NEDA has approved a $350,000 TDP grant to the Laguna Lake Development Authority (LLDA) to prepare a plan for management and reduction of hazardous waste in Laguna Lake near Manila. Pre-qualification data from interested U.S. consultants is currently being solicited.

Manila Port Bulk Handling Terminal--NEDA approved a $430,000 TDP grant to the Philippines Port Authority (PPA) to conduct a feasibility study on alternative sites and equipment configurations for a bulk handling terminal for Manila Port. Pre-qualifications of interested U.S. firms are being solicited. The Asian Development Bank (ADB) will finance follow-up infrastructure design and the construction of certain facilities from an existing loan; it is expected that private-sector entities will finance needed bulk-handling equipment.

Manila Solid Waste Management--TDP made a $510,000 grant to the Department of Public Works and Highways (DPWH) to fund the preparation of a comprehensive municipal solid waste management plan for Metro Manila. DPWH has selected Ashland Technology Corporation to prepare the plan.

Mariwasa Co-Generation Power Plant--TDP signed a $71,314 grant with I.T. Power to conduct a feasibility study for establishing a co-generation power plant on the grounds of the Mariwasa Tile Company. The project is supported by the First Philippines Holding Corporation (FPHC), which hopes to be a co-financier and contract operator of the plant. FPHC hopes that this project can also become the model for up to 25 other co-gen plants to be established in the Manila area.

Philippines Investment Mission--In April, 1988, approximately ten representatives from the Philippines government and private sector visited New York, St. Louis. Dallas and San Jose to discuss investment opportunities in the Philippines with approximately 120 U.S. companies. Preparation of investment profiles, travel arrangements and solicitation of U.S. companies was done by the U.S. ASEAN Center for Technology Exchange, Inc. under a $51,750 grant from TDP and donations from U.S. firms doing business in the Philippines. Appropriate follow-up is now under discussion.

TDP GRANTS UNDER CONSIDERATION

Telecommunications Training--AT&T has asked TDP to finance certain internship training in telecommunications system planning and operations management for personnel from the Philippines Long Distance Telephone Company (PLDT) as a means to enhance AT&T's offer to PLDT on a $250 million switching and transmission equipment procurement. Five other non-U.S. firms are also bidding on the contract.

Build-Operate-Transfer (BOT) Power Generation--Chase Manhattan is negotiating with the National Power Corporation to finance, construct, supply equipment to and operate one or more BOT power plants in the Philippines. TDP has been asked to co-finance the planning of these projects.

Additional NEDA Requests--NEDA has also asked TDP to consider funding the following studies and projects in the next fiscal year. TDP is obtaining more information on these projects including the equipment likely to be purchased, the U.S competitiveness on that equipment and the likely sources of financing for implementing the projects (ADB and World Bank). The requested project studies are:

1. Nationwide radio monitoring and direction finding network;
2. World Bank telecommunications project;
3. Feasibility studies for the railways sector (studies for revival, expansion and modernization);
4. Davao International Airport master planning study;
5. Geothermal exploration and development;
6. Co-generation in the Philippine setting;
7. Electrical generation from rice husks w/thermal burners;
8. Rivers revival program--Pasig river system rehabilitation (toxic waste cleanup and management portion); and
9. Centralized treatment facility for tannery waste.

FEDERAL-STATE PROGRAM SUCCESS

Senator INOUYE. Senator Mikulski has another important engagement with another subcommittee, so if I may I would like to call upon her for questioning.

Senator MIKULSKI. Thank you. I just want to make a few quick points.

First, Ms. Frame, I know you are the acting director of this program, and I would like to compliment you on the way that you have just stepped in and taken over the management. For our expenditure of $20 million, I think we are getting an enormous amount of payoff, particularly in these small scale projects.

I would also like to thank you for really carrying out the congressional intent in reaching out to the State programs to see how we can maximize and really leverage on those Federal dollars with State dollars.

We look forward to hearing what you are doing for continuing work in that and thank you for what you are doing in Maryland on the Biotech outreach.

REVERSE TRADE MISSION

I really do not have a lot of questions except in two areas. One, you talk about reverse trade missions. Could you share with the committee quickly how that worked? I mean, I know how it works.

Do we get a lot out of that?

Ms. FRAME. We have really begun to see results from reverse trade missions. Once we have completed a feasibility study and the project is going forward, what we have done to maximize the export opportunities for the manufacturing firms, in addition to the engineering firms, is to bring high level foreign government officials who are going to be involved in procurement on that project to the United States to see our equipment and our technology in operation and to meet the companies.

This has been quite successful. For example, we did this in China on coal handling equipment. The Chinese, in fact, bought several million dollars worth of coal handling equipment.

We see this as a wonderful opportunity to work with the States because the States are the ones that know about the manufacturing companies, particularly the small- and middle-size companies that we do not even know exist.

STATE INITIATIVE

What we are intending to do in terms of working with the States is this: We are in the process now of summarizing a number of feasibility studies that are going to be moving forward to project implementation and listing the equipment that is going to go into those projects. We will share that information with the States, and then hopefully work together with them to——

Senator MIKULSKI. With the governor, his or her cabinet, the private sector is very willing to host and do an enormous amount of show and tell where they would not necessarily have either the technical expertise or the financial resources to go.

Ms. FRAME. That is right, but they are able to host, and that is the thing. They know the companies within their States that can make that equipment, so we think that is a great match. That is one area that we have targeted already as a potential area for working with the States that can enhance our program.

Senator MIKULSKI. Thank you. There is a lot to talk about, but I just wanted to reiterate my vote of confidence for you. I look forward to following your progress.

Senator INOUYE. Mr. Kasten.

Senator KASTEN. Thank you for the work that you are doing.

As you know, we always had a very good relationship with your group when Chris was running it. We have always worked together well, and you are doing just a terrific job. We thank you and congratulate you for what you are doing and your overall direction.

BUDGET INCREASE

Some people have talked about trying to increase some of the resources available to you. I know that you are under certain constraints from OMB and other places, but what would happen if we, for example, doubled the amount of dollars? Does that mean that you would have to double the amount of people?

If you kind of look at where we are going, all of us understand that we are getting one heck of a return for our dollars invested in this particular area in TDP.

If we increased the money, does that mean you would have roughly the same number of projects but they would be larger projects? Does it mean that you would double the number of projects? Are you turning down projects now because you do not have money, or are you turning down projects now because they are not good projects?

Can you explore this idea with me? Think in terms of doubling your budget.

Ms. FRAME. Hypothetically, understanding that the administration request is $20.4 million——

Senator KASTEN. We will be supportive. I do not understand what the constraints might be in what increasing appropriated dollars would mean for other kinds of things.

Ms. FRAME. Yes. Well, our budget now is $25 million, and that is the highest budget we have had so far. It is $5 million above the year before. We anticipate that we will have no problem spending that amount of money.

We have increased the staff by one person partly because of the new authority—the State initiative—and the additional money.

We are turning away projects. Some of them do not meet our criteria, but there are other projects which we cannot do because of size. A $2 million feasibility study for us would be very, very large, and we have decided not to devote that much money to any one project. So certainly if our budget were bigger, we could do some of the bigger projects.

We have discussed whether we should get into the design work. We have pretty much stayed with just prefeasibility or feasibility studies. But if American companies can actually do the design work, it places them in even a better position. We have not done design work, not because we have not thought it was a good thing to do but because of the size of the budget. Once you get into the design work, you are talking bigger contracts, so we have just not had the money to do that.

I think certainly we would be able to do more in the trade-related training area that we have begun to experiment with and could see spending quite a lot more money in that area.

STATE INITIATIVE

Regarding the State initiative, we are really just laying the groundwork now. One concern we have is that it will be too popular and that with a limited budget we are going to have to limit what we do with the States.

So in terms of a bigger budget, we would have to make some changes. We would have to make some additions to our staff. I think everyone feels, though, that we have been effective in part because we have been small, and we would not want to grow too much.

I think that if we were doing bigger projects, certainly we could handle it pretty much with the same staff. We might have to add a couple more people. Right now we know we need an administrative person, and we are going to be hiring, but I think we would not significantly alter the structure or the number of people, and I think we could deal with more money without doing that.

Senator KASTEN. On page 8 you list the various State programs. I do not want to criticize Hawaii. That is very important, and I understand that Maryland is important. I keep going through here time and time again, and I cannot find Wisconsin.

Ms. FRAME. We are just going to have to change that. [Laughter.]

Senator KASTEN. We are going to have to work with you, and I hope very much that we can find a reason for us to work a little bit with Wisconsin as well.

I thank you, and I congratulate you for the fine work that you are doing.

Ms. FRAME. Thank you.

By the way, you will be happy to note that Wisconsin has been invited to our seminar next week, so we hope to be able to get some projects going with them.

Senator INOUYE. I thank you again.

OVERSEAS PRIVATE INVESTMENT CORPORATION

STATEMENT OF CRAIG A. NALEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS PRIVATE INVESTMENT CORPORATION

ACCOMPANIED BY:

ROBERT DRAGON, VICE PRESIDENT, FINANCE DEPARTMENT
ERIC GARFINKEL, GENERAL COUNSEL

Senator INOUYE. Our next witness is the President and Chief Executive Officer of the Overseas Private Investment Corporation, the Honorable Craig A. Nalen.

Welcome to the committee, sir.

Mr. NALEN. Thank you, Mr. Chairman. I have a prepared written statement which, with your permission, I would like to submit for the record.

Senator INOUYE. It will be made part of the record.

Mr. NALEN. I have some oral remarks which I promise to keep brief, and I look forward to answering any questions you might have.

This is our second appearance before your committee. I want to thank you and your excellent staff for the interest you have shown in OPIC and for your support of our agency.

It is hard for me to realize that this is the beginning of my eighth and final year as President of OPIC. I came here fully intending to spend maybe 2 or 2½ years at this job, but I must confess that unlike a lot of people who have come to Washington to take appointed jobs, I have found my experience to be an extremely interesting and thoroughly rewarding one.

Maybe it is because this agency attracts a lot of private-oriented staff people. Maybe it is because we deal with the private sector. Maybe it is because we do not require congressional appropriations and actually make money.

Whatever it is, it has been an excellent experience and a rewarding one, and I have appreciated it.

PURPOSE AND ACTIVITIES OF OPIC

I think you know that OPIC's purpose is to encourage U.S. private investment in developing countries as a means of stimulating economic and social progress. OPIC does this by financing projects through direct loans and loan guaranties and insuring investments against a broad range of political risks.

We are unique in some other ways. Not only do we provide significant benefits to the struggling economies of the developing world, but we assist U.S. business which is fighting to regain its competitive edge in the international marketplace.

I might add we do this without one penny of appropriations from Congress. We are self-sustaining. We actually make a profit. It has been jokingly stated by others we return a dividend to the American taxpayer.

Your committee is responsible for establishing our levels of direct loan and investment guaranties operated by our Finance Department.

I should add at this moment I have with me Bob Draggon, who is the Vice President in charge of our Finance Department, and our Vice President and General Counsel, Eric Garfinkel.

I am sure you are aware that OPIC's finance program provides medium to long-term financing through direct dollar loans, loan guaranty facilities and local currency loans for new business ventures and expansions of existing ventures involving eligible U.S. businesses.

In fiscal year 1988, following the recommendation of this subcommittee Congress approved a ceiling of $23 million for direct loans and $200 million for our loan guaranty program. For fiscal year 1987 I am pleased to report OPIC committed this same amount in approving a record 30 investment projects in 19 countries. In the current fiscal year we hope to commit all of our available resources for both programs.

Of special note in fiscal year 1987 was the Finance Department's success in funding projects located in the poorest developing nations. Over 60 percent of the year's financing commitments in dollar terms involved projects located in the poorest of the developing countries as measured by per capita gross national product levels.

OPIC achieved this while at the same time generating a profit of over $100 million. Please note this: Our administrative expenses were actually less in 1987 than they were 3 years before that.

OPIC-SUPPORTED PROJECTS

The projects supported by OPIC have had a wide impact throughout the developing world. As of September 30, 1987, the two largest segments of our loan portfolio were in two of the neediest areas: 36 percent of our total finance portfolio was located in Latin America and the Caribbean and 25 percent in Africa.

FINANCE PROGRAM

Let me give you a brief overview of our finance program and some examples of typical OPIC projects. In our direct loan program, which is reserved exclusively for small U.S. business and cooperatives, OPIC was authorized to issue loan commitments during fiscal year 1987 totaling $23 million, and we did indeed use this full authority.

In our direct loan program we have been particularly effective in facilitating the participation of U.S. small businesses in the economic development of countries of the Caribbean Basin, as well as around the world. Projects have varied from tuna fishing in Mauritius, to the Caribbean Basin where we have food processing projects in Guatemala, leather products in the Dominican Republic, a U.S. construction equipment distributor in Bolivia, and shrimp farming in Ecuador.

In our loan guaranty program we provide U.S. financial institutions with guaranties for loans for larger, more capital-intensive projects in developing countries. During fiscal year 1987 OPIC made loan guaranty commitments totaling our full $200 million level to U.S. companies whose projects were located in 10 developing countries.

Both large and small investors are eligible for OPIC's loan guaranty program. The kinds of projects that we have assisted with our loan guaranty program range from oil exploration activities in Colombia, to a hotel in Turkey, to a rubber plantation in Liberia, to an oil refinery in Argentina, to a geothermal energy project in Indonesia and, as a matter of fact, to an aerial spraying operation to eradicate river blindness disease throughout West Africa.

OPIC LOAN PORTFOLIO

These examples are really only a few of the score of projects that OPIC's Finance Department has undertaken over the past several years.

In fact, OPIC's loan portfolio has grown dramatically over the recent years, and this has caused us some concern. For example, in 1984 we were involved in 87 projects in our finance program. In 1987 that figure had grown to 125 projects. Our loan portfolio in 1984 was somewhat over $400 million. Last year it was over $750 million.

This kind of growth, combined with trying to meet OPIC's challenging mandate from Congress, which is to help the smallest of the small U.S. companies to invest in the poorest of the poor Third World countries, has been quite a challenge indeed. By its very nature, our mandate implies that our projects are often above-average risk, which, of course, gives us as managers of this program some concern to make sure we are running our finance program in a responsible way, complete with adequate profit analysis, loan monitoring and project review.

Last fall we made a decision to engage the services of an outside consultant, Peat Marwick Main & Co, to do a study on our finance department management procedures. The results of that study confirmed some of our concerns that there were certain areas that we needed to tighten up and organize a little bit better.

We have now taken certain corrective steps. Our credit analysis has been enhanced. We have implemented more rigorous monitoring of our projects, and we have set up an organization to conduct independent loan review within our agency.

Shortly after the engagement of Peat Marwick, the General Accounting Office conducted a separate review of OPIC's loan management. We welcomed the GAO's involvement and cooperated fully with their survey team.

In a report which was issued last month, the GAO confirms Peat Marwick's recommendations and notes that OPIC is taking prompt and effective action to implement them. We are now reviewing all of GAO's recommendations in further detail, but have generally found their assessment to have been a very valuable contribution which will help a well-working organization operate even better.

1988 REAUTHORIZATION BILL

Now, before closing let me just briefly mention one item of special interest; that is, OPIC's 1988 reauthorization bill. While it is not under the direct review of this committee, OPIC's reauthorization is currently before Congress. Our request focuses on how OPIC can best respond to its twin mandates of meeting the evolving development needs of Third World missions in the 1990's as well as strengthening the U.S. competitive position in the international marketplace.

The proposed reauthorization bill which has been introduced in the Senate is, to oversimplify, designed to do three principal things: First, to increase the developmental impact of OPIC; second, to increase the role of U.S. small business in international development and trade; and, finally, to improve the competitiveness of U.S. business in the international marketplace.

The bill would extend the operating authority of OPIC for four more years. Remember, again, it requires no appropriations from Congress.

The House passed the reauthorization bill on May 12, and we are hopeful the Senate will act before our authority runs out in September.

U.S. COMPETITIVENESS

I would like to cover for just a moment one final item, the subject of American competitiveness in the markets of the developing world.

There is now overwhelming and irrefutable evidence of a positive linkage that exists between U.S. foreign investment and increased U.S. trade and exports. Our American companies are in direct and vigorous competition for these private investment opportunities in vital strategic markets around the world, and we are losing this struggle to industrial competitors from Japan as well as major Western European countries.

OPIC's programs can help maintain the competitiveness of U.S. business and help U.S. business sponsors reach the untapped markets of the Third World.

In conclusion, let me again thank this committee and your staff for the help and support you have given us. In looking to the future, the track record of OPIC, I think, speaks for itself. We have fully utilized the resources provided by Congress; the benefits to the Third World host countries and the U.S. economy are clear; and we operate on a self-sustaining basis.

Thank you very much for your interest, and I would be pleased to respond to any questions.

[The statement follows:]

STATEMENT OF

CRAIG A. NALEN

PRESIDENT AND CHIEF EXECUTIVE OFFICER

OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to meet with you today to review the accomplishments of the Finance Program of the Overseas Private Investment Corporation ("OPIC"). Before reporting on these accomplishments, Mr.. Chairman, let me take this opportunity to thank the subcommittee and its capable staff for the courtesy you have shown me and the support you have given to OPIC over the seven years that I have been privileged to serve as head of this exceptional organization.

Overview

As you know, OPIC is a self-sustaining U.S. Government agency which began operations in 1971. OPIC's purpose is to encourage U.S. private investment in developing countries as a means of stimulating economic and social progress. OPIC assists U.S. investors in this effort through two principal programs: (1) financing projects through direct loans and loan guaranties; and (2) insuring investments in such projects against a broad range of political risks.

OPIC's programs are funded entirely out of its own earnings. Because it requires no appropriations, OPIC's role in the development process has become increasingly important as the foreign aid budget continues to decline. As this committee is acutely aware, budgetary constraints have resulted in a reduction of U.S. foreign assistance from $18.8 billion in FY 1985 to $13.6 billion in FY 1988. By operating its programs on a self-sustaining basis, OPIC provides a cost-effective mechanism by which substantial additional resources are mobilized for Third World development, thereby producing both an alternative and a complement to traditional foreign assistance.

I am pleased to report that OPIC has been able successfully to fulfill its diverse development, trade and small business mandates while operating at an annual profit of over $100 million during the past three fiscal years,* with capital and reserves presently at $1.2 billion. In achieving this, administrative expenses actually decreased slightly, from $11.6 million in FY 1985 to $11.1 million in FY 1987.

OPIC FINANCE PROGRAM

This committee is responsible for establishing the limitation on the direct loan and investment guaranty programs operated by OPIC's Finance Department. Following your recommendation, Congress approved a FY 1988 ceiling for OPIC of $23 million for direct loans and $200 million for loan guaranties for the second consecutive year. I would like to report that for FY 1987, OPIC committed this entire amount in approving a record 30 investment projects in 19 countries. Looking ahead, for FY 1988, we again hope to fully commit all available resources for both programs.

Purpose

OPIC's finance program provides medium- to long-term financing through direct dollar loans, loan guaranty facilities and local currency loans, for new business ventures and expansions of existing ventures involving eligible U.S. businesses. OPIC's participation normally takes the form of "project financing" based upon the economic, technical, marketing and financial soundness of the project itself. Each project must be within the demonstrated competence of the proposed management, which must have a proven "track record" in an identical or similar line of business, as well as a continuing financial stake in the enterprise.

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* OPIC figures used in the calculation of the U.S. deficit are derived from the U.S. Treasury's Annual Report.

In providing project financing, OPIC makes every effort not to compete with commercial banks and other financial institutions, but seeks instead to complement private lending facilities. Commercial banks frequently seek OPIC participation in project financing because they recognize that the involvement of OPIC, as a U.S. Government agency, can strengthen the prospects for project success.

OPIC financing is particularly important for U.S. small businesses, which are often unable to obtain long-term funding for overseas projects on reasonable terms from private U.S. or developing country sources. This is of special interest because of the unique contributions that U.S. small business can make to the development process. OPIC has refined its existing programs to make them more useful and accessible to small business and has established new programs primarily or exclusively to meet the needs of smaller investors.

To further increase its developmental impact, OPIC has developed new programs to provide flexible financial assistance in the form of working capital loans, distributorship financing, and small contractors' guaranties. OPIC is also promoting new and innovative financial products, such as the Africa Growth Fund for sub-Saharan Africa and the CBI Fund, which will enhance economic activity in developing countries of two regions most in need of productive enterprise.

It is notable that approximately 70 percent of OPIC's annual project finance commitments since 1982 have been sponsored by, or have involved significant participation by, U.S. small business. In addition, the majority of OPIC's financings in dollar terms during this five-year period have gone to projects located in the least developed countries -- those with per capita incomes of $896 or less in 1983 U.S. dollars.*

FINANCE PROGRAM PERFORMANCE

Since 1971, OPIC has made commitments for direct loans, loan guaranties and local currency loans totalling nearly $1.2 billion to finance 199 U.S.-sponsored projects in the developing world. During FY 1987, OPIC made $225.8 million in direct loans, loan guaranties and local currency loans.

OPIC supported projects have a wide geographic distribution throughout the developing world. As of September 30, 1987, 36 percent of the total finance portfolio in dollar terms was located in Latin America and the Caribbean, with 25 percent in Africa, 20 percent in East Asia, and 19 percent in the Near East, South Asia and Europe.

Direct Investment Fund (DIF) Program: Financing Small Business Investments

During FY 1987, OPIC issued direct loan commitments totalling $23 million to a record 17 projects in 12 developing countries. OPIC's direct loan program, which is available only to projects sponsored by small businesses and cooperatives, has been particularly effective in facilitating the participation of U.S. small business in the economic development of countries in the Caribbean Basin. Since 1985, approximately 72 percent of all OPIC direct loans have been made to Caribbean Basin projects.

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* The House of Representatives on May 12, 1988 acknowledged OPIC's emphasis of encouraging U.S. small business to invest in the least developed countries and encouraged OPIC to continue to promote such investment in an amendment added to OPIC's reauthorization bill, H.R. 4471.

An example of the support OPIC provides through its Direct Investment Fund is the $200,000 direct loan in FY 1987 to Classic Wood Products Limited to assist in the acquisition and expansion of a wood products manufacturing facility in Belize. The project, which will create 29 jobs and provide worker training, will produce a variety of finished wood items from local hardwoods, which have traditionally been exported as lower-value raw timber.

OPIC's direct loan program has also assisted U.S. small businesses in Africa. An example of such assistance is the $5.9 million direct loan commitment provided in FY 1987 to Trident Foods, Ltd. to assist in establishing a tuna fishing and canning operation in Mauritius. In addition to contributing to local economic diversification, the project will create 380 jobs, provide extensive training and technology transfer, and generate $22.5 million in U.S. exports over the first five years of operation.

Direct Investment Program -- Examples of Recent Initiatives

As mentioned above, as part of its emphasis on enhancing development activities by small business, OPIC now offers distributorship financing and working capital loans. An example of such financing was the $2 million loan package ($1 million term loan and $1 million working capital line) to

Maquinarias Tractores y Equipos, S.A. in FY 1987 to expand a U.S. construction equipment distributorship in Bolivia. This loan, which will assist a U.S. small business in a very poor country, will result in positive U.S. trade benefits as well--the project is expected to generate incremental U.S. exports of more than $35 million during the first five years of operation.

Another working capital loan was provided to Distribuidora Industrial, S. de R.L. de C.V., a U.S. electrical goods distributorship in Honduras ($312,500 term loan and $250,000 working capital line in FY 1987). This project expansion will generate at least 16 new positions and improve efficiency by allowing the investor to maintain an adequate inventory. Another working capital loan was provided to Fabrica Industrial de Alimentos de Honduras, a condiment packaging and processing plant in Honduras ($150,000 term loan and $250,000 working capital line in FY 1986). This working capital line will permit the company to expand its network of suppliers; developmental benefits will include additional foreign exchange earnings and increased employment for local farmers.

Loan Guaranty Program

OPIC's loan guaranty program provides U.S. financial institutions with guaranties for loans for larger, more capital intensive projects in developing countries. These guaranties protect against commercial as well as political risks.

During FY 1987, OPIC made loan guaranty commitments totalling $200 million for 13 projects in 10 developing countries. Both large and small investors are eligible for OPIC's loan guaranty program. An example of a project involving U.S. small business is a $6.6 million investment guaranty in FY 1987 to Argosy Energy International, a business involved in the staged development of an oil field in an extremely underdeveloped area of Colombia. This loan, the first OPIC finance project in Colombia, will result in more than $10 million of U.S. exports.

Increased U.S. exports and substantial host country development will result from a $35 million OPIC loan guaranty for establishment of a facility for manufacturing digital telephone switching equipment in Egypt by AT&T International. The project will establish an on-going market for U.S. components and will greatly improve Egypt's telephone line capacity.

Local Currency Loans

OPIC also administers the Cooley Loan Program, which lends excess local currency obtained by the U.S. Government through sales of agricultural commodities to developing countries under Public Law 480. In FY 1987, OPIC made one Cooley loan in Pakistan for the local currency equivalent of $2.8 million. OPIC's Cooley Loan Program was terminated during FY 1987 because the U.S. Government no longer holds excess local currency in Pakistan. OPIC is currently working with the Agency for International Development and the U. S. Department of Agriculture on a new local currency lending program which makes local currency funding available, under Section 108 of the 1985 Food Security Act, to finance private enterprise.

Portfolio Management

With the increase in its lending authority, OPIC's loan portfolio has grown substantially in recent years. At the end of FY 1984, OPIC's authorized or committed direct loans and loan guarantees totaled $447 million in 87 projects. By September 30, 1987, finance activity had increased to nearly $750 million in 125 projects.

In light of this growth and in recognition of its impact on OPIC's lending operations, OPIC has undertaken steps to strengthen its financing and loan monitoring functions. OPIC also is working to improve its management information systems to facilitate the efficient management of its growing portfolio and expects to complete the implementation of organizational and procedural changes during fiscal year 1988.

Other OPIC Programs

Let me briefly mention OPIC's successful political risk insurance and pre-investment assistance programs. In 1987, OPIC insured a record 144 projects in the developing world. Thirty-three percent of these projects involved small business investors, and 60 percent of these projects were located in the poorest Third World Countries.

To help U.S. investors identify specific project opportunities in developing countries, OPIC sponsors investment missions, operates a computer investor/project matching system, and provides country-specific investor information kits. Since 1981, OPIC has organized investment missions to more than 27 developing countries. Thus far in 1988, we have completed investment missions to Turkey, Bangladesh and Nigeria, the latter two being developing countries most in need of U.S. private investment.

OPIC also promotes sectoral growth in key industries of special interest to Third World development. For example, OPIC is a co-sponsor with the U.S. Department of Energy of the

September, 1988 International Renewable Energy Conference being hosted by the State of Hawaii. The conference will focus on accomplishments and opportunities for renewable energy technology with special emphasis on Pacific Basin Nations.

Also, as directed by Congress, OPIC recently opened up its programs in the Republic of Ireland and Northern Ireland. Later this month OPIC will sponsor an investment mission for U.S. businesses to Northern Ireland and the Republic of Ireland. We are now actively recruiting U.S. investors for this mission and would welcome your assistance.

I will now turn to OPIC's reauthorization and other items of significant interest.

OPIC 1988 Reauthorization

While not under the direct review of this committee, OPIC's reauthorization is currently before Congress. The proposed legislation, S.2006, introduced by Chairman Pell of the Senate Foreign Relations Committee, by request, is designed to

- increase the developmental impact of OPIC;
- increase the role of U.S. small business in international development and trade; and,
- improve the competitiveness of U.S. business in the international marketplace.

The bill extends the operating authority of OPIC programs for four years, requires no appropriations and contains only one major new initiative. That initiative would allow OPIC to take a small equity position in certain projects. The new authority would be a pilot program to be used only for projects in the Caribbean and sub-Saharan Africa. It would complement our existing small business loan program by supporting projects which now cannot go forward because of inadequate equity. Similar programs are operated by all of OPIC's major OECD counterparts, putting U.S. firms at a competitive disadvantage.

We are pleased that the House of Representatives on May 12, 1988 passed the OPIC reauthorization legislation. We are hopeful the Senate will act soon because our current authority expires on September 30, 1988.

OPIC and U.S. Trade and Competitiveness

Besides its growing importance in Third World development, OPIC plays a positive role in the expansion of U.S. trade. As OPIC has observed in its FY 1987 Development Report to Congress, (copy attached), U.S. foreign investment not only assists in the economic development of the Third World, it can also play an important role in increasing U.S. exports. In recognition of this linkage between U.S. direct investment and trade, Congress has consistently encouraged OPIC to promote investment projects having favorable U.S. trade impacts.

OPIC's experience confirms the connection between investment and trade. The 446 investments insured and financed by OPIC from FY 1985 through FY 1987 will provide substantial trade and employment benefits to the U.S. economy. The projected net U.S. trade benefits from these projects during their first five years of operation is estimated at $4.2 billion and the estimated net positive U.S. balance of payments impact over the same period is $5.9 billion. Employment generation for the United States will also be extremely favorable. A net gain of more than 47,000 person-years of U.S. employment is expected to result over a five-year period from U.S. manufacturing and service activities generated by these OPIC-assisted projects.

The strong relationship between investment and trade has not been lost on other major industrial countries. As noted in OPIC's FY 1987 Development Report, (Chapter Three), almost without exception, OPIC's OECD counterparts operate much larger investment support programs than OPIC's in order to enhance their trade competitiveness. These programs are subsidized and supported through government appropriations, while OPIC operates its programs on a self-sustaining basis.

OPIC's Screening of Projects for U.S. Effects

OPIC, of course, recognizes that not all investments by U.S. companies are beneficial to the United States. Therefore, pursuant to Congressional directives, OPIC screens each proposed investment--and selectively monitors investments after they are made--to ensure that they contribute positively to the development of the host country and, at the same time, do not have any significant adverse effects on the U.S. economy or U.S. employment. On the contrary, it has been shown that the U.S. economy is positively affected by these projects.

In OPIC's 1985 reauthorization legislation, Congress directed OPIC to examine and report to Congress on "the direct impact on the U.S. economy, and consequently employment, of a sample of OPIC projects active as of September 30, 1986, and inferences about the universe of OPIC projects." The report, which was prepared by a major accounting firm, Arthur Young, was submitted to Congress as required in December 1987. The principal finding of the report is that "OPIC-assisted projects have significant positive impacts on domestic U.S. employment." In addition, no OPIC projects were found to be "runaways" in which a U.S. company lays off its workers as a result of making an overseas investment. OPIC is encouraged that the results of its own screening, estimating and monitoring of U.S. economic effects have been confirmed by this independent study.

Improved Environmental Protection Measures

Finally, like this subcommittee, OPIC is very sensitive to the impact of U.S.-supported projects on the host country environment. OPIC will not support any investment in connection with a project which will pose an unreasonable or major environmental, health, or safety hazard, or will result in the significant degradation of national parks or similar protected areas.

In FY 1986 and FY 1987, OPIC assessed the potential environmental impacts of nearly two hundred projects in the agriculture, aquaculture, manufacturing, food processing, construction, tourism, oil and natural resource sectors. The Corporation issued 17 notifications to developing country governments in FY 1986-87 for projects which were considered environmentally sensitive because they involved potentially hazardous chemicals or activities which could have adverse impacts on the environment if the projects were not properly managed.

While conducting environmental assessments, OPIC found that the majority of projects that it insures or finances involve more sophisticated technology or environmental controls than are commonly used in the host countries. Occasionally, however, OPIC encounters proposals for projects posing significant environmental or safety hazards. In nearly all of these cases, OPIC has found that investors are willing to make changes which bring them into conformance with statutory criteria. If sponsors are unwilling or unable to make such changes, the project is rejected. Environmental considerations have contributed to OPIC's decision to decline support for three projects since FY 1986.

Conclusion

OPIC financing has enabled U.S. investors, and small businesses in particular, to compete effectively in a growing number of developing countries, especially in the Caribbean Basin and Africa. OPIC has offered new and innovative financial products to meet the needs of U.S. business and to promote Third World economic development. As a result, OPIC has effectively and efficiently used all of the resources made available by Congress.

I believe that OPIC can continue to play a significant role in meeting the challenge to assist the development and economic growth of the Third World. Operating as a self-sustaining entity during a period of budget restraint, OPIC can also increase trade opportunities and help American companies remain competitive in the international marketplace without requiring additional expenditures by the U.S. Treasury.

Thank you, Mr. Chairman. I would be pleased to respond to your questions.

REDUCTION OF DIRECTIVE LOAN PROGRAM

Senator INOUYE. Thank you very much.

Considering the mission of your program which coincides with that of the President, how do they justify reducing the directive loan program by $6 million and reducing the guaranteed loan program by $25 million?

Did you request this reduction?

Mr. NALEN. Your question puts me in a bit of an awkward position.

I can only answer that by saying the reduction comes as an overall initiative by the administration to cut back on government programs and government expenditures and government credits; and, unhappily, OPIC, as a government agency, falls within that jurisdiction. But we certainly did not request that specifically for our programs.

Senator INOUYE. Could you tell us what you requested?

Mr. NALEN. From our administration? I do not know that we are in a position to request at all. We are generally told what our limits are, and I think those are $17.5 million in the direct loan program and $175 million for loan guaranties.

Senator INOUYE. That is what the administration is requesting, but is that what you are recommending?

Mr. GARFINKEL. We asked for $223 million. I think that is what we——

Senator INOUYE. For the direct loan?

Mr. GARFINKEL. $23 million for the direct loan, $200 million for the guaranties.

Mr. NALEN. Which is the level that the House has recommended.

LOANS IN ARREARS

Senator INOUYE. What about the number of loans now being in arrears? I think about 40 percent?

Mr. NALEN. Bob, do you want to talk to that point specifically?

Mr. DRAGON. In dollar terms it is roughly 10 percent. If we are talking about the GAO report on the small business program, out of $50 million in the total portfolio, roughly 10 percent of $5 million is in arrears. That is very, very acceptable compared to other lending programs and taking into consideration that we are dealing in Third World markets in very risky conditions.

Mr. NALEN. As I mentioned, Mr. Chairman, we have been given a very challenging mandate with direct instructions from Congress to bend over backwards for the smallest of the small companies and the poorest of the poor nations. Accordingly, we are asking for high risk. If Congress would choose that we not do this, we can do that, too; but I think our mandate is to help our small business community and particularly help the poorest of the poor nations.

Naturally, we are going to have a higher than average amount of risk involved. It is remarkable that we have not had more loans go into arrears.

PROGRAMS IN SYRIA

Senator INOUYE. In your 1987 annual report, you list Syria as one of the countries in which OPIC's insurance and finance programs are operable. However, the State Department has placed Syria on the list of nations supporting international terrorism.

Keeping that in mind, how do you explain why Syria continues to remain in OPIC's insurance and finance programs?

Mr. NALEN. We get guidance for the countries in which we can and cannot operate from a wide spectrum of advisors, the State Department being just one.

Generally, the prohibitions evolve around worker rights violations and human rights violations. To my knowledge, no one has come to us on Syria.

Mr. GARFINKEL. We are doing nothing in Syria.

Senator INOUYE. A member of the State Department sits on your board, does he not?

Mr. NALEN. That is correct.

AFRICAN GROWTH FUND

Senator INOUYE. I have many other questions. I would like to receive a memo from you telling this subcommittee on the progress you have made on the African growth fund.

Mr. NALEN. We would be pleased to. We will respond in our written responses for the record.

Senator INOUYE. Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

In Milwaukee we have an insurance company called Northwestern Mutual, and they call themselves "the quiet company." I think that what we have here is a quiet corporation or a quiet agency that is just doing a remarkable job. For that, I thank you and congratulate you.

I am also pleased that, I think for the first time since Senator Inouye and I have been working in this committee, we are not going to be in the position of trying to restore funds which the House has cut going back to 1981 based on the House recommendations now coming in at, as I understand it, roughly last year's level.

I am optimistic that we will be at least at last year's level on this side. It will no longer be this idea of trying to——

Senator INOUYE. Why not make that commitment right now?

Senator KASTEN. All right, I can make it. I will make it on behalf of myself and the chairman that you will be at least at the present level of spending, and if there is a way that we can increase, we will also look to doing that.

I just first of all thank you and congratulate you for the work that you are doing.

Mr. NALEN. Thank you, Senator.

ACTIVITY IN HAITI

Senator KASTEN. It is my understanding that you have requested or are in the process of requesting an exemption from the prohibition on activity in Haiti.

Mr. NALEN. That is correct.

Senator KASTEN. Could you just describe briefly if and how you can operate in Haiti without dealing with the Haitian government?

Mr. NALEN. We are in a dilemma on Haiti right now; let me just say as an aside, because through sloppy bill writing, for lack of a better word, we were inadvertently included in action that prohibits or imposes economic sanctions on Haiti, and we should not have been.

I think both sides are now trying to come up with some legislation that would permit us to reopen our programs in Haiti. We think it is important because we have a number of U.S. companies that have applications in for either expansions of operations or new investment in Haiti.

We deal, as you know, directly with the U.S. investor, and we just think it would be improper to penalize the Haitian population and the unemployment problems in Haiti by prohibiting private sector activities there.

To the extent that we can, we avoid dealing directly with the Haitian government; I do not see that continued operation would be any particular problem.

Senator KASTEN. You have been successful in that effort?

Mr. NALEN. Yes.

Senator KASTEN. You can deal directly with companies and with investors and you do not have to go through——

Mr. NALEN. That is right. We have not had any problems of that nature in Haiti. In fact, we have been very successful in a number of U.S. activities down there.

ENVIRONMENTAL IMPACT CONSIDERATIONS

Senator KASTEN. In the process of evaluating different kinds of projects that you work through, do you consider the environmental impact of projects that you support?

For example, would you encourage forestry enterprises if you were to involve yourself in the forestry enterprise to plant trees to replace those which were cut for manufacture?

Do you in different ways try to work through the trade between long-term development and simply short-term development which exhausts resources and, in fact, is not sustainable?

Mr. NALEN. That is a good question. The fact is we have no choice. By congressional direction, we must consider environmental considerations, and we do. We review the environmental impact of every project. We reject projects that may have an adverse effect on the environment. So I think we do carefully fulfill our directives in that area in that regard.

Mr. DRAGON. If I could just add, in the sector of forestry we would require reforestation as part of any project.

LOAN GUARANTEE IN EGYPT

Senator KASTEN. As you may know, this is of special interest to me and to our committee. We have made a lot of progress, frankly, in terms of working with the World Bank, in working with the multilateral development banks, and in working with A.I.D. and agencies such as yours so that we do not get ourselves in these kind of short-term projects which in fact exhaust resources and are not sustainable over the longer term.

Maybe I should submit this for the record, but could you give us an update on the progress of the $35 million loan guarantee in Egypt for the telephone switching equipment? Evidently that is work that you are doing for AT&T.

Mr. NALEN. Yes; it is a very important project. It enabled an American company to compete successfully against the French, German, and Swedish.

Mr. DRAGON. We talked to the company last week, and essentially the competition has been narrowed down to the Swedish company, Erickson and AT&T. The bidding process is ongoing, but a short list is getting shorter, and AT&T is still confident that they have a very good opportunity to get that business.

Senator KASTEN. Mr. Chairman, if I could indicate we are interested in following along with the progress on that particular project, and I would hope that you would keep our staff involved as things develop.

Mr. DRAGON. We would be pleased to.

Senator KASTEN. Craig, let me just again say thank you and congratulations for the work you are doing. As I say, I am happy that the quiet agency is getting more and more attention, and I think you are doing a great job.

Mr. Chairman, thank you.

Senator INOUYE. In line with the statement just issued by the Vice Chairman here, may I request that your general counsel or your legislative counsel provide us with necessary language to extend the life of OPIC? I am asking this because it may become necessary to put that language in our bill because the authorizing committee has not yet acted on that. If they do not and we do not, you are out of business. We have no intention of putting you out of business at this time, and we want to be certain that the language is correct and appropriate.

[The information follows:]

OVERSEAS PRIVATE INVESTMENT CORPORATION
WASHINGTON, D.C. 20527, U.S.A.

OFFICE OF THE
PRESIDENT

June 20, 1988

The Honorable Daniel K. Inouye
Chairman, Subcommittee on
  Foreign Operations
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In response to the request that was made of OPIC at our June 8 hearing before your Subcommittee, I have enclosed the minimum language that would be necessary to reauthorize OPIC. However, in view of recent developments within the Senate Foreign Relations Committee, the inclusion of such language at this particular time may be premature.

Since we appeared before your Committee, the Senate Foreign Relations Committee has taken significant steps to move our reauthorization bill forward. A hearing is now scheduled on OPIC's reauthorization for July 6, and a markup is anticipated the following week.

If the Senate Foreign Relations Committee adheres to this schedule, inclusion of OPIC reauthorization language in the Foreign Operations Bill, which you have kindly offered, may be unnecessary. If, however, this schedule slips, the appropriations process may be the only vehicle to ensure that OPIC is not forced to terminate its insurance programs on September 30, 1988.

As you can see, we at OPIC are in a difficult position, trying to work within the normal authorization channel, while hoping to avoid termination of our programs.

Let me suggest, therefore, that before utilizing an appropriations bill to ensure OPIC's continued authorization, we wait to see if the Senate Foreign Relations Committee indeed adheres to the proposed schedule. If progress is delayed and our reauthorization is placed in doubt, we would welcome the inclusion of reauthorizing language in a subsequent appropriations vehicle. We should have an idea, fairly soon, of how the Senate Foreign Relations Committee will proceed.

In the meantime, I will personally keep you informed of the status of our reauthorization bill within the Senate Foreign Relations Committee so that we can move quickly through the appropriations process if such action becomes necessary.

Again, thank you for your gracious offer and your interest in OPIC.

Sincerely,

Craig A. Nalen

Enclosure

cc: The Honorable Bob Kasten
    Vice Chairman

OVERSEAS PRIVATE INVESTMENT CORPORATION

Provided further, That section 235(a)(2) of the Foreign Assistance Act of 1961 is amended by striking out "$750,000,000" and inserting in lieu thereof "$1,500,000,000": Provided further, That section 235(a)(5) of the Foreign Assistance Act of 1961 is amended by striking out "1988" and inserting in lieu thereof "1992".

Mr. NALEN. Thank you for the offer.

Senator INOUYE. With that, I thank you very much.

Mr. President, you have been very patient waiting here.

Mr. NALEN. It is an opportunity worth waiting for. I was hoping you were going to ask me about the Philippines because I know you and Senator Kasten both have an interest there.

SUBMITTED QUESTIONS

Senator INOUYE. We are going to be submitting questions.

I would like at this time to thank all of our witnesses this morning.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

EXPORT-IMPORT BANK OF THE UNITED STATES

QUESTIONS SUBMITTED BY SENATOR INOUYE

EXPORT-IMPORT BANK LOSSES

SENATOR INOUYE: I understand that since the early 1980's, the Export-Import Bank has suffered losses averaging between $250 million and $300 million a year. For the fiscal year ended September 30, 1987, the Bank's loss was a record $387 million.

At a time when average American taxpayers are being told by their President to absorb ever greater cuts in social programs, how can you continue to justify these enormous Eximbank losses funded with the hard-earned dollars of those same taxpayers?

MR. BOHN: Eximbank's continuing losses are due to loans made in the late 1970's below Exim's cost of funds. These loans were necessary to help U.S. exporters remain competitive. Our exporters cannot succeed by themselves in the face of aggressive foreign government export subsidy programs. In some cases, they need us to provide risk coverage to fill the void left by the significant commercial bank withdrawal from export finance in many of our traditional markets. Over the past 54 years, we estimate that the Bank has supported $193 billion of U.S. export sales through its various programs. In addition to the important role exports play in our economy, there is no doubt that export sales supported by the Bank have sustained millions of jobs throughout our nation and have contributed to the viability and productivity of important sectors of American industry. U.S. exporters are going to continue to need all of Eximbank's support to deal with strong international competition.

BANK CONTESTS PREPAYMENT PREMIUM

SENATOR INOUYE: In the Chairman's statement contained in the Bank's 1987 Annual Report, you state that: "The Bank incurred an aggregate loss of $460.9 million in FY 1987, including an operating loss of $339.9 million. Though vigorously contested by Eximbank, a $121 million prepayment premium was assessed by the Federal Financing Bank (FFB) when the loans of certain borrowers were prepaid pursuant to Congressional mandate and the proceeds were used to retire existing high rate Exim borrowings." (Annual Report, 1987, p. 2)

Why did Eximbank incur a loss?

MR. BOHN: The losses the Bank is now experiencing are a result of loans made in the seventies at interest rates well below our borrowing costs. Before the agreements were reached in the OECD to link the rates that are charged to some kind of a consensus, there was a large volume of transactions which went forward due to direct competition between countries. For example, several billion dollars a year of direct credits were authorized over that period where the Bank was borrowing at approximately 12 percent and lending money at 8 to 9 percent. The impact of these loans will be felt into the foreseeable future.

SENATOR INOUYE: Is it true that the Administration proposed as part of its budget the sale of Eximbank assets? Is this not what led to the loss of $460.9 million? Am I to understand from

this statement that as a result of Administration policy you incurred an operating loss and a prepayment penalty?

MR. BOHN: Yes, the Administration did propose as part of its budget that Eximbank sell part of its assets in FY 88 and FY 89. However, only $121 million of the $460.9 million loss was related to asset sales. The Bank's assets were sold at par. However, since the asset sales resulted in a large inflow of funds, the Bank had to prepay some of its borrowings to the FFB. The $122 million was a prepayment penalty assessed Eximbank for the early payment of this debt. Eximbank's operating loss of $339.9 million was the result of the continuing impact of large amounts of below market-rate loans made in the late 1970's and early 1980's.

TRADE DEFICIT, 1987

SENATOR INOUYE: Along with many others, I was shocked by last year's trade deficit figures. In our history, we have never had such a large deficit -- $171.2 billion; 9.6 percent larger than the previous year -- a new record in trade deficits.

In what commercial and geographical areas is the Bank targeting its attention to maximize the use of its resources and reverse the country's negative trade balance?

MR. BOHN: Because of our country's huge trade deficit and the commercial banking industry's retrenchment from international finance, Eximbank has undertaken a major revision in the way it does business.

In May 1987, Eximbank made the largest restructuring of its programs in almost 30 years. All programs were simplified and improved so that exporters and lenders had little or no risk on transactions. Additionally, all programs were opened up so that any responsible party could apply. Modifications were made to encourage loans to small businesses. The exporting community has found these changes very exciting and useful.

A second effort is directed at increasing the distribution system for our programs, with an emphasis on encouraging more small- and medium-size businesses to export. To do this, we needed to be closer to the exporting community. Thus, in January 1988, Eximbank began a pilot program with the cities of Columbus, Tucson, and Los Angeles, and the states of California, Maryland, and Massachusetts. Through this effort, we are getting much better marketing access to the local business community including small banks. Some localities are also processing requests for us, removing the "long-distance" factor. Early next year, we will review the results of the program and consider expanding it. This effort also helps us overcome the retrenchment of the banking community.

Also, we continue to be responsive to requests for speakers and run a full agenda of training programs. On a monthly basis, we offer both 1 and 2 day seminars and on an every-other-month basis a 4-day seminar. All are free and open to anyone. We have also taken our intensive training seminar outside of Washington, D.C. to San Diego, Seattle, Columbus, and San Francisco in order to reach small exporters and banks.

WAR CHEST

SENATOR INOUYE: In the Export-Import Bank Act Amendments of 1986, Congress established a mechanism to provide an appropriation for Eximbank under the "War Chest." The Bank uses this appropriation to fund the grant portion of mixed credits. In 1987, Eximbank received $78.1 million in appropriations from the U.S. Treasury for this purpose.

How have you used your "War Chest" appropriation and how would you rate its success in combatting unfair foreign competition?

MR. BOHN: U.S. exporters have been confronted with the "mixed credit" or "tied-aid credit" issue for several years. The U.S. Government repeatedly opposed the practice of offering tied-aid credits for commercial purposes in the OECD with little success, until March of 1987. At that time, OECD countries agreed to raise the cost of providing tied-aid credits to the donor country. The U.S. strategy in endorsing the agreement was based on the assumption that the increased cost of providing tied-aid credits would serve as a disincentive to their use.

Prior to the conclusion of the tied-aid credit agreement, Congress authorized the War Chest and thereby gave additional leverage to the U.S. negotiating team. The U.S. initiated War Chest-funded tied-aid credit offers in competitor markets at higher than required concessionality levels. For example, Eximbank authorized concessional loans in Gabon where the French have a traditional trade relationship and in Asia where the Japanese are the dominant trade partner. In order to remain competitive, Eximbank's foreign counterparts were forced to match the high U.S. concessionality level.

The War Chest was very successful in assisting the U.S. to conclude the new tied-aid credit agreement; the success of the new agreement in deterring the use of tied-aid credits, however, has not yet been fully tested. The agreement was structured in phases, the first of which was effective July 1987 and the second of which was effective July 1988. Hence, it is too early to judge if the intended result will be accomplished.

SENATOR INOUYE: How do you respond to critics of the "War Chest" idea who insist that such a practice will only encourage retaliatory measures against U.S. businesses and increase trade friction?

MR. BOHN: The impact of the new tied-aid credit agreement on the volume of tied-aid credits is not yet known, since the agreement was just fully implemented on July 15, 1988. There is no indication that either retaliatory measures against U.S. businesses or that trade friction will develop as a result of the use of the War Chest. At the same time, however, there is no indication that the level of tied-aid credits has decreased during the first phase of the tied-aid credit agreement. Eximbank closely monitors the level of tied-aid credit activity and regularly informs Congress of progress toward the goal of reducing mixed credit subsidies.

BANK EXPOSURE

SENATOR INOUYE: Your 1987 Annual Report lists the Bank's total exposure in the following countries as of September 30th of last year.

Country	($) Exposure 9/30/87
Syria	965,732
USSR	169,922,312
Cuba	36,266,518
Ethiopia	67,912,634
Saudi Arabia	81,519,106
Kuwait	12,972,218
Bahrain	748,027

What is the source of the Bank's exposure in these seven countries ?

MR. BOHN: The Bank's exposure in these countries in thousands as of May 31, 1988, is as follows:

Country	Loans	Guarantees	Insurance
Bahrain			75
Cuba	36,267		
Ethiopia	6,733	57,575	
Kuwait			6,060
Saudi Arabia		17,817	52,718
Syria			966
USSR	109,120		

SENATOR INOUYE: Why are you using American tax dollars to finance exports to businesses in Saudi Arabia, Kuwait and Bahrain, three of the world's wealthiest countries?

MR. BOHN: Our goal was and is to help our exporters remain competitive, however, Eximbank has not had any loan activity in these countries for some time. Activity is now restricted to guarantee and insurance coverage.

SENATOR INOUYE: Do you have any prospect of recovering past loans made to Syria, Cuba, Ethiopia, and the Soviet Union?

MR. BOHN: The Soviet Union has always been current on their loan repayments. Eximbank loans to the other countries are to their respective governments or guaranteed by that government. We believe that these countries will honor their obligations. As each country's economic and political situation improves, we expect them to eventually make full payment on their debt.

FOREIGN CREDIT INSURANCE ASSOCIATION (FCIA)

SENATOR INOUYE: The Foreign Credit Insurance Association (FCIA) is an association of insurance companies under contract with the Bank to market and administer insurance policies by billing and collecting premiums, processing and paying certain claims, and pursing recovery on certain claims on behalf of the Bank. In 1986, FCIA insurance accounted for $4.4 billion of export credit insurance on which the Bank assumed all of the risk of loss.

It is well known that the FCIA insurance program incurred large losses in the early 1980s and that, as a result, all but four FCIA member insurance firms withdrew from the Association. Presently, FCIA functions as a servicing agent employed by Eximbank on a cost-reimburseable basis.

Briefly describe the reason for the large losses suffered by the insurance program. How much of these losses were due to debt problems in developing countries?

MR. BOHN: The large losses were mainly the result of the collapse of private sector buyers in Latin America as a result of the 1982 debt crisis. The overwhelming majority of the claims originated with buyers in less developed countries.

SENATOR INOUYE: If the FCIA no longer assumes risk on the insured transactions of the Eximbank, why not have the Bank assume its essentially clerical functions? How much would the Bank save under this scenario?

MR. BOHN: The Bank has neither the staff nor the support system to absorb a highly technical insurance operation. During a given month FCIA:

- renews policies,
- issues 40 new policies,
- receives applications for, and processes on a timely basis, 500 individual buyer endorsements to existing policies,
- collects premium and processes shipment declarations from 1,000 multibuyer policyholders,
- calls on numerous existing policyholders,
- visits hundreds of potential policyholders,
- processes claims,
- recovers $2 million or more on unpaid claims.

SENATOR INOUYE: Do you support a move by the Bank to assume all the functions of the FCIA? If so, what are the circumstances under which that would occur?

MR. BOHN: No, for the reasons cited in the answer above.

SENATOR INOUYE: I understand that a financial audit of FCIA's fiscal year 1986 financial statements was conducted recently by FCIA's independent auditors. In addition, a companion study made of its internal accounting controls concluded that serious weaknesses exist in its overall internal control environment. These accounting weaknesses raise serious questions about the reliability of FCIA's records and prompt me to inquire whether steps have been taken to reconcile its accounts. (Financial Audit, GAO/AFMD-87-61,11, 8/87)

What steps have been taken to ensure that transactions now are accurately and promptly processed, summarized and reported by FCIA?

MR. BOHN: First, new staff has been hired. Second, the FY 1987 financial statements were audited and the audit report, issued in just over 90 days past fiscal year-end, included a clean opinion. Third, the "internal control weakness" letter from the outside auditors has been withdrawn.

Additionally, an Audit Committee chaired by the Treasurer-Controller of Eximbank actively oversees the accounting activity.

SENATOR INOUYE: Are your recorded balance and related transaction activities now being substantiated and evaluated periodically? If not, why not?

MR. BOHN: Yes. Eximbank receives monthly statements from FCIA on a timely basis.

SENATOR INOUYE: Have controls been instituted to properly monitor the conversion of data to the FCIA's new computer system?

MR. BOHN: An active MIS Steering Committee, with Eximbank participation, oversees the MIS development and installation process. Successful MIS projects have been completed on time and within budget. Most recently, a project converting data over to a new MIS system was successfully completed.

SENATOR INOUYE: According to the GAO, the government's cost of administering the FCIA insurance program was about $15 million in fiscal year 1986. This yielded a ratio of expenses to premium income of about 69 percent. The GAO notes that this is high in comparison to both private insurers and major foreign programs. (Export Credit Insurance, GAO/NSIAD-87-189, 4, 9/87)

Do you agree with this assessment and to what do you attribute this high expenses-to-premium ratio?

MR. BOHN: The actual expense ratio at FCIA is 50 percent with 20 percent of that (i.e., 10 of the 50) being brokers' commissions and taxes. The additional expenses GAO included were operating expenses at Eximbank that are assigned by Eximbank's management to the Insurance Program.

FCIA's expenses are high, yet are acceptable to Eximbank since they are incurred in order to provide needed data to the Bank as well as to do the bulk of all underwriting, issuance, maintenance, recording and selling of policies. In addition, FCIA's underwriting activity has incurred modest commercial losses in recent years. The 50 percent expense ratio is not uncommon in the industry and is in fact a standard for surety and credit insurance underwriters in this country. One of FCIA's member companies successfully writes domestic credit insurance at this expense level.

For further clarification of Eximbank/FCIA answers to the above questions, please refer to the following Eximbank/FCIA Comments on the GAO Report on Export Credit Insurance:

COMMENTS ON THE GAO REPORT ON EXPORT CREDIT INSURANCE

In its study on export credit insurance and the Foreign Credit Insurance Association (FCIA), the GAO found that "FCIA pursued the Government's objective for the export credit insurance program and is providing satisfactory services to its policyholders. We therefore support the continuing use of FCIA as Eximbank's marketing agent." Eximbank agrees with this finding. At the same time, however, the GAO noted that areas needing attention at FCIA include a high administrative expense ratio, personnel turnover, financial and information management, marketing costs, and some inefficiencies in Exim and FCIA insurance and claims approval processes and MIS functions. Improvements are being pursued to correct shortcomings noted in this study.

1) Administrative Expenses

While FCIA has restrained the growth in its general and administrative expenses in recent years, we concur that the overall expense ratio is still high. One solution to this problem would be to increase premium income. As competitiveness objectives preclude significant increases in premium rates, increases in premium revenues will have to be the result of increases in the dollar value of the exports insured.

FCIA's budget is reviewed in-depth by various committees as well as the FCIA Board of Directors. These committees strictly review and control general and administrative expenses and employee compensation levels. Efficiencies gained in these areas are likely to be offset by the increasing proportion of FCIA's business which relates to small business and the relatively high administrative costs this entails, as well as the need for more detailed reporting of operational and strategic information. In trying to cut costs significantly, FCIA would run the risk of reducing the quality of customer service which it has diligently worked to achieve over the past several years.

2) Employee Turnover

The solution to the problem of employee turnover is likewise elusive. Over the years, FCIA has proven to be a "training ground" for trade finance specialists and specialty insurance brokers. Both commercial banks and brokerage houses have been able to attract FCIA employees with the inducements of higher salaries and greater fringe benefits. This process has been slowed recently by the shift away from trade finance by the banking community. Furthermore, recent outside studies show that FCIA compensation packages are now in line with industry norms.

Thus, FCIA's employee turnover is projected to improve significantly. In fact, turnover in FY 1987 was only 25 percent, compared to the 34 percent turnover rate experienced in FY 1986. It should be kept in mind that this improvement took place despite a fairly high turnover related to changes in the accounting and MIS areas of FCIA.

3) Financial Management

During its audit of FCIA's financial statements for FY 1986, Arthur Andersen & Co. identified a number of accounting deficiencies, staffing problems and a general lack of accounting controls. These problems raised questions regarding the reliability of FCIA's records and caused considerable delay in completing their annual audit. Corrective actions were taken immediately in these areas. New management was brought in, procedures manuals were developed, and Eximbank has instituted an active oversight process of the accounting and MIS functions.

Arthur Andersen and Co., in their audit of FCIA's FY 1987 financial statements has noted that FCIA has successfully addressed the control weaknesses. The Audit Committee, which is made up of representatives of FCIA, Eximbank and a private insurer who is a member of FCIA, has been meeting on a regular basis to ensure compliance with the overall process. The new management in the accounting and MIS area is continuing to consider new methods to improve the division.

4) Management Information Systems

Arthur Andersen has been assisting FCIA to identify and develop solutions for problems in the automated information system.

An overall MIS development plan was introduced in the Spring of 1987 which identified critical processes that needed immediate attention and which introduced a strategy to alter program structure. This activity is being overseen by both Arthur

Andersen and a Steering Committee made up of representatives from FCIA, Eximbank and Arthur Andersen.

5) Marketing

On the marketing side, FCIA uses both insurance brokers and direct marketing. The regional offices have primary responsibility for selling the product and their operating expenses account for about 80 percent of total marketing expenses. FCIA's direct mail marketing campaign with follow-up contacts by the regional offices has not produced satisfactory results and the GAO report suggests examination into the cost-effectiveness of this effort versus indirect marketing through brokers and other intermediaries. In fact, both FCIA and Eximbank have plans to examine this issue with on-site reviews of branch operations and an analysis of the benefits and effectiveness of brokers.

6) Overlaps in Operational Procedures

The GAO report noted that several overlaps in the export credit insurance program management result from Eximbank's need to exercise oversight and control over FCIA operations as a matter of fiscal responsibility (under the Agency Agreement FCIA has authority to underwrite insurance, thus placing the U.S. Government at risk). The GAO suggested that the agency relationship be streamlined to assure program efficiency. This issue is not a new one: in earlier strategic plans, FCIA and Eximbank have acknowledged the need to streamline operational efficiency. On the underwriting side, FCIA's normal delegated authority has been set so that greater than 90 percent of all insurance transactions can be decided upon at FCIA's New York City headquarters. A close working relationship exists between both Eximbank and FCIA's underwriting staffs and several improvements have been made to speed up the underwriting process. However, in order to exercise proper fiscal responsibility, a relatively small number of transactions (those presenting the largest dollar value, the highest degree of risk and sensitive issues -- e.g., military use, adverse economic impact, country credit-worthiness, unusual legal issues, etc.) need to be underwritten and decided upon at Eximbank. Management at both institutions are continually working together to improve the process.

Important steps have been taken with regard to overlaps in the claims and recoveries process. Staffs at both FCIA and Eximbank are presently exploring various options to improve the business functions of this process. Specific goals have been set by Claims and Recoveries to meet the business and accounting demands of both FCIA and Eximbank. With regard to claims, the staff is attempting to cut layers from the review and decision-making process, develop a data maintenance system compatible to the needs of both institutions and review the documentary requirements for insureds in support of their claims applications. The situation with regard to recoveries is more complex. The approach to effecting recoveries differs depending on the cause of loss, country, financial condition of the buyer, etc. Discussions on coordinating thus far have centered on organizational changes, accounting responsibilities, the probable expansion of FCIA recoveries responsibility and the disposition of recovery receipts. In sum, business goals are being set and information requirements are being identified and analyzed to develop smoother operations between FCIA and Eximbank.

DIRECT LOAN PROGRAM

SENATOR INOUYE: In its proposals for reducing the deficit, the Congressional Budget Office suggested -- once again -- the elimination of Eximbank's direct loan program. CBO said, "Eliminating the direct loan fund would save $100 million in 1989 and $1.3 billion over the five-year period."

What do you estimate would be the true cost to the United States economy if the Bank's direct loan program were eliminated?

MR. BOHN: The Congressional Budget Office in its latest proposal for reducing the deficit stated that "Eliminating the direct loan program would save $100 million in 1989 and $1.3 billion over the five-year period. However, the estimated subsidy cost of the Bank for these loans was $205 million or thirty percent of total loan authorizations in FY 87 and that included a pure grant of $78 million for the War Chest. This subsidy is expected to drop to $174 million or twenty-five percent in FY 89, and $82 million or twelve percent in FY 90.

It is also estimated that for every $1 billion of exports approximately 25,000 jobs are produced. This small subsidy cost to support millions in export sales as well as the additional economic benefits of new jobs is well worth the investment. It would cause a significant loss of U.S. jobs and productive capacity if U.S. export sales were lost to subsidized international foreign government financing.

SENATOR INOUYE: How has the decline in the value of the dollar affected the demand for the Bank's direct loans?

MR. BOHN: The decline in the value of the dollar has resulted in an increase in demand for Eximbank's direct loan authority. In FY 87, $677.1 million of final authorizations were made from a budget of $680 million. Already in FY 88, $599 million has been authorized leaving $91 million available until the end of the fiscal year. Although the price of U.S. goods has become more attractive and consequently trade finance support has increased, major projects which have traditionally been a large part of Eximbank facilities, have been much slower to pick up due to the current global debt situation.

SENATOR INOUYE: This year the Administration has requested a slight increase in the direct loan program -- up from the $690 million we provided for fiscal year 1988 to $705 million requested for fiscal year 1989.

In view of the strong rhetorical stand taken by the Administration on the question of the trade deficit, why are you requesting such a modest increase in funding?

MR. BOHN: Given the very tight budget situation, the Administration requested a funding level that will allow the Bank to continue to meet currently estimated demand.

SUBSIDIES TO LARGE INDUSTRIES

SENATOR INOUYE: Much of the Eximbank's red ink is due to loans made in the late 1970's and 1980's when interest rates soared. In 1981, for instance, the Bank paid as much as 15.75 percent interest to the Treasury's Federal Financing Bank, while making loan commitments to customers of the Boeing Company, the Westinghouse Electric Corporation, Combustion Engineering Inc., and other large exporters, at rates of less than 10 percent.

Is the American taxpayer continuing to provide subsidies of this magnitude to the nation's large industrial enterprises when small business continues to struggle in the face of rising international competition?

MR. BOHN: Eximbank's continuing losses are due to loans made in the late 1970's below the Bank's cost of funds. These loans were necessary to help U.S. exporters remain competitive.

Export credit guidelines issued in 1983 by the Organization of Economic Cooperation and Development virtually eliminated interest rate subsidies in official credits to industrialized countries and significantly reduced these subsidies to developing countries. Owing to the success of the Reagan Administration in reducing export credit subsidies, the average amount of subsidy in an Eximbank direct credit has declined from more than 2 percent to almost zero. Currently, the average consensus rate is over 8.50 percent and the average cost of funds to Eximbank is about 8.75 percent.

While many of the loans from the late 1970s and early 1980s are still being repaid that are in the Bank's portfolio, a recent review of Eximbank's operations showed that 24 percent of our current business goes to small businesses and that 65 percent of the total number of transactions approved by Eximbank now go to small- or medium-sized businesses.

1987 TRADE PERFORMANCE

SENATOR INOUYE: I understand that during 1987 U.S. exports rose 44 percent to $9.3 billion.

What role did the Export-Import Bank play in the improvement in U.S. trade performance in 1987?

MR. BOHN: Exports supported by Eximbank in FY 1987 were up 42 percent over the level supported in FY 1986. The coincidence of this increase with the large improvement in overall U.S. export levels suggests that Eximbank was pulling its weight in facilitating the expansion of U.S. exports.

SUSTAINABILITY

SENATOR INOUYE: What assistance does the Bank provide to businesses to ensure that once a high risk market is penetrated, the American position can be sustained?

MR. BOHN: The goal of the Export-Import Bank is to help U.S. exporters by neutralizing the effects of foreign export credit agency practices on U.S. competitiveness. The intended result of these objectives is to allow true market influences to determine U.S. export levels. The Bank does offer special assistance to small- and medium-sized firms that would not otherwise have access to financing for their exports.

In all of these actions, however, the Bank is addressing the case-specific financing needs of U.S. exports. It is the responsibility of the exporter to have adequate knowledge of the market and to provide product quality and customer service at a competitive price in order to carve and keep a place for his product in a new market.

While Eximbank cooperates with other U.S. Government agencies in providing general market information useful to exporters, there is little Eximbank can do to ensure an American share of a specific market except stand ready to provide support on individual transactions.

DIFFERING NATIONAL APPROACHES TO THE GRANTING OF EXPORT CREDIT

SENATOR INOUYE: In a Report to Congress on Export Credit Competition and the Export-Import Bank of the United States, issued in June, 1987, you characterized the difference in approach taken by the Japanese, European and Americans to official export credit. The report stated that the basic approach taken by the European and Japanese Governments is "to make broad, long-term national determinations about substance and then provide the implementing entity with sufficient resources and administrative freedom to allow all creditworthy, eligible cases unquestioned access to the support." By contrast, the report characterized U.S. leading as essentially "needs" based with each application being examined "to ensured that it needs Eximbank support in order to go forward." (*Export-Import Bank Report to Congress on Export Credit Competition and the Export-Import Bank of the U.S.*, June, 1987, 2)

Are you suggesting that there should be a fundamental change in the way the U.S. Government allocates official export credit?

MR. BOHN: The diverging approaches of official export credit agencies have their roots in the vastly different philosophies regarding government direction or intervention in private sector activity. While some governments have very actively directed the resource allocation within their private sectors, the U.S. Government has chosen to maintain a basically non-interventionist role in the marketplace.

Reflecting these philosophical differences, Eximbank has developed a responsive, defensive export credit system which is consistent with overall U.S. Government principles. Eximbank perceives its mandate as assisting export financing to *needy* businesses in all sectors with a special focus only on small and new-to-export firms.

Eximbank is not suggesting that there should be any change in either the overall U.S. philosophy or the allocation of U.S. resources. Rather, Eximbank only wants to make it clear that the competitiveness of the Bank's programs and policies reflects both the philosophical parameters of our political environment (about which Eximbank can do nothing) and the practical implementation of the technical tools consistent with that philosophy (which is within Eximbank's control).

SENATOR INOUYE: What are the shortcomings of the Japanese and European approach to the allocation of official export credit and where does the U.S. hold an advantage?

MR. BOHN: The shortcomings of the Japanese and European approach are not necessarily in their export credit system, but in other parts of their economy. For example, to obtain resources for export credit, several countries allow no tax deductions for residential mortgages. Hence, a trade off between a well-financed export credit system (Japan's advantage) and a plentiful supply of housing (U.S. advantage).

FUTURE OF THE EXIMBANK

SENATOR INOUYE: How do you answer the charge that the Export-Import Bank is a relic of an bygone age when the United States was the most powerful creditor nation and all of its trading partners were broke and exhausted from two costly world wars? With Germany and Japan now two of the largest creditor nations, what is the role of the Bank today?

MR. BOHN: The basic mission of the Export-Import Bank is to facilitate the financing of U.S. exports. The United States' status as an international debtor or creditor is irrelevant to this role. Nations such as Brazil, Egypt, and India -- who are in arguably worse debt situations -- maintain export credit agencies to support their exports. Eximbank's role is to help U.S. exporters by neutralizing the effects of foreign export credit agency practices on U.S. competitiveness and offsetting exaggerated perception of risk. This role is just as necessary to U.S. exporters today as it was 5 (or thirty) years ago.

FAIR TRADE

SENATOR INOUYE: I understand that since 1982 industrial countries have agreed to limit credit subsidies. Yet, the difference between the Eximbank's average cost of its money and what it receives from its loans was still around 1.5 percent through most of 1987.

What is the difference between the subsidies paid Japan and the European Community to their respective export industries and the practices of the U.S. Eximbank?

MR. BOHN: During 1987 the official export credit agencies of the major European countries such as France and Italy typically offered interest subsidies of 1-1.5 percent per year while the export credit systems of U.S. and Japan operated at or above their cost of funds.

PREPAYMENT PENALTY

SENATOR INOUYE: When the Eximbank borrows from the Treasury, the Treasury in turn borrows the equivalent in the market. Now that interest rates are lower than in 1980-81, the Eximbank wants to pay off its high-interest rate Treasury borrowings to reduce its losses. I understand that to cover the still high costs that remain from servicing those original loans, the Treasury imposes a refinancing fee. Two years ago the Bank sold $1 billion of its loans, and with the proceeds paid off some of the high-rate Treasury loans. As a result, it incurred a $190 million added charge against income because of prepayment penalty.

How do you answer your critics who charge that waiving Treasury's prepayment penalty would obscure the true costs of the Eximbank?

MR. BOHN: We do not believe that waiving Treasury's prepayment penalty would obscure the true costs of Eximbank. All facts concerning the prepayment of debt such as the amount, the timing, and the rate would be fully disclosed in the Bank's financial statements. Waiving Treasury's prepayment penalty is in our opinion, a viable method of recapitalizing the Bank, while fully disclosing the cost involved.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

SENATOR LAUTENBERG: Is the Eximbank currently financing any projects in Poland?

MR. BOHN: Eximbank is not currently financing any projects in Poland. Poland owes Eximbank over $322 million from credits which were extended to support U.S. exports between 1973 and 1980.

SENATOR LAUTENBERG: If so, describe the projects to the fullest extent possible, including recipients of the financing, conditions of the financing, duration, etc.

MR. BOHN: Since Eximbank is not presently financing any projects in Poland this question is not applicable.

SENATOR LAUTENBERG: If not, has the Eximbank developed any plans to assist Polish lenders at some point in the future? What are they?

MR. BOHN: Even though Eximbank is not financing any projects in Poland, we have agreed in principle to negotiate an aircraft repossession insurance policy with a leasing company which may lease new aircraft to Polskie Linie Lotnicze (LOT), the Polish national airline. The lessor, which has not yet been selected, would lease three new Boeing-767 aircraft to LOT and assume all repayment risks over the twelve-year lease term. However, the lessor would receive from Eximbank insurance against the risk that the Government of Poland would not allow the aircraft to be repossessed if LOT fails to comply with the terms of the lease.

SENATOR LAUTENBERG: Are there any obstacles in U.S. law or Eximbank policy which would impede lending or giving other assistance to enterprises in the Polish private sector?

MR. BOHN: Section 2(b)(2)(A) of the Export-Import Bank Act of 1945, as amended through October 15, 1986, bans any Eximbank extension of credit, insurance or guarantee to any Marxist-Leninist country. In connection with this prohibition, Section 2(b)(2)(B) of our Act specifically lists those countries Congress has defined as Marxist-Leninist and Poland is included on this list. However, the President determined that is in the national interest to do business in Poland. From a legal point of view, the Bank could provide assistance to Polish private enterprises. Of course, any provision of credit to such enterprises would require that the Bank determine that there exists a reasonable assurance of repayment for each transaction. Up to the present, economic conditions within Poland have precluded such a determination and, therefore, the Bank has no immediate plans to extend new financing to any enterprise within that country.

Eximbank's financing in the past was conducted within the framework of a bilateral procedural agreement between Eximbank and the Government of Poland. This requires that all financing be extended to the Polish Government through

Bank Handlowy w Warszawie, S.A., the Polish Foreign Trade Bank. At a minimum, it would be necessary to change this agreement in order to extend financing to private sector entities.

SENATOR LAUTENBERG: Are there any such obstacles as far as the Polish government is concerned?

MR. BOHN: Eximbank is not sufficiently familiar with Polish Government laws or regulations to make a judgement on this matter.

SENATOR LAUTENBERG: What in the Eximbank's judgement would be worthwhile projects to support in Poland? What kind of industries or businesses would be good candidates for Eximbank credits?

MR. BOHN: Eximbank does not, in Poland or elsewhere, attempt to initiate projects which ought to be supported, but rather attempts to review and analyze, in both macro- and micro-economic terms the viability of projects for which financing is requested.

SENATOR LAUTENBERG: What are the external conditions under which Eximbank would be able and willing to fund private projects in Poland?

MR. BOHN: As suggested in the replies to questions 3 and 4 above, Eximbank will have to determine that there is a reasonable assurance that financing would be repaid, and also will require a change to the procedural operating agreement currently in effect.

QUESTIONS SUBMITTED BY SENATOR KASTEN

SENATOR KASTEN: As I think you know, this subcommittee has been one of your strongest centers of support in Congress over the years. Ultimately, we failed in keeping the direct loan program at a high level because while we appropriated high levels, the bank did not use the funds.

It appears now that you will use everything we gave you last year -- a good sign although the amount (under $700 million) is a long way from the amounts we provided in the past (above $4 billion).

What do you see, over time, as being the optimum level for direct loans?

MR. BOHN: The enhanced competitiveness of American exporters is increasing the demand on Eximbank's direct loan program. We have already approved approximately $599 million of loans for final authorization from Exim's FY 1988 loan budget of $693 million. We believe that we have sufficient authority remaining to handle the normal volume of small- to medium-sized cases for the balance of the year. However, estimating the actual use of the direct loan authority is a process of continual reassessment, especially concerning projections into FY 1990 and beyond. At this time, if exporters should win orders during the next few months for one or two larger projects for which we have preliminary commitments outstanding, current demand could well exceed our FY 1988 authority. This would result in a large carryover of demand into FY 1989, for which we have requested $705 million for direct loans. If our demand exceeds our authority, we will be forced to restrict use of our FY 1989 and FY 1990 loan authority, and ultimately to reassess our requests for direct loan authority.

SENATOR KASTEN: There have been almost no requests from the aviation industry for Bank help recently. Is that because the industry does not see enough resources in the Bank to apply for help, or has there been some change in that particular industry?

MR. BOHN: The lack of demand for subsidized Eximbank loan support from the aviation industry is not, in my judgment, due to a perception of insufficient resources. Rather, the successful negotiation of the Large Aircraft Sector Understanding (LASU), agreed to in 1985 by both U.S. and Airbus countries' export credit agencies, which limits export credit support for large jet aircraft to commercially-related terms, has decreased the demand for all export credit support for aircraft. The structure of the LASU results in a biweekly change in the interest rates applied to aircraft transactions. Both the U.S. and the relevant European export credit agencies follow the same commercially-related interest rate and repayment term guidelines, which has essentially eliminated financing as an issue. The end result has been a shift away from interest rate subsidized loan support, toward either: (1) no export credit support; or (2) financial-guarantee only support for large jet aircraft transactions.

Eximbank is currently developing an aircraft repossession insurance policy (ARI) -- that is, coverage against government expropriation of, say, a leased aircraft. This type of support is attracting interest from U.S. aircraft manufacturers and lessors who elect to lease aircraft to foreign airlines.

SENATOR KASTEN: Do you sense any change in attitude by the French and others with reference to predatory financing?

MR. BOHN: The attitudes of OECD countries that provide predatory financing in the form of tied-aid credits do not appear to have changed in the past year. Mixed credit offers initiated by the French in 1987 more than tripled compared to their 1986 level. As you are aware, the U.S. Government was successful in negotiating a tied-aid credit agreement among the OECD countries in mid-1987 which increased the cost to the donor countries of providing tied-aid credits. The final phase of the agreement was implemented on July 15, 1988, and therefore, a dramatic change in activity levels would not be expected this soon. Eximbank closely monitors tied-aid credit activity and regularly reports to Congress any progress made in reducing the level of tied-aid credit activity.

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF DEVELOPMENT RESOURCES FOR LATIN AMERICA AND THE CARIBBEAN

QUESTIONS SUBMITTED BY SENATOR INOUYE

TRADE CREDIT INSURANCE PROGRAM (TCIP)

TCIP EVALUATION PROMISED TO THIS SUBCOMMITTEE LAST YEAR

SENATOR INOUYE: Last year this Subcommittee was told that early in fiscal year 1988 you would be undertaking an evaluation of the TCIP to assess what level of incremental trade resulted from guarantees provided to countries in both Central America and elsewhere. (Hearings, 64, 1987)

Has this evaluation been completed and if so, what are its conclusions?

MR. BROWN: The evaluation was completed in May 1988.

The purpose of the evaluation was to assess the extent to which the program was accomplishing its overall objectives. The evaluation strongly supported the program's role and recommended its continuation.

TCIP was found to have been an important facilitator for the importation of production inputs into the region, to have improved the terms for import financing and to have been an effective mechanism for managing foreign exchange.

The evaluation team found that it was not possible to directly or statistically measure the amount of incremental trade which TCIP had facilitated; however, all participating countries indicate that it has been substantial.

THE FUTURE OF TCIP

SENATOR INOUYE: As you point out in your prepared statement, the Trade Credit Insurance Program originally was authorized in October 1984 for a three-year period by section 224 of the Foreign Assistance Act. Subsequently, it was extended through September 30, 1989.

Have you developed a position on what the future of the program should be after September 1989?

MR. BROWN: During the past year, TCIP has finally begun to hit its stride. By September 1988 the cumulative total of letters of credit issued had reached $592 million and $139 million were outstanding as of that date.

TCIP has become a vital support mechanism facilitating the flow of inputs needed for local production, thus helping to stabilize the economy while the country continues to make the difficult structural and policy adjustments which will bring greater growth.

We believe it would be a mistake at this stage to allow the current authorization to expire and recommend the program's extension, consistent with the "Plan for Fully Funding the Recommendations of the National Bipartisan Commission on Central America" submitted to Congress in March 1987.

CONFLICTING GOALS

SENATOR INOUYE: In describing the function of the TCIP, Irwin A. Levy, Deputy Director of the Office of Development Resources told this subcommittee last year that: "TCIP responds to a perceived lack of foreign exchange to fund necessary imports for the private sector in Central America." Under the TCIP, A.I.D. does not lend government funds; rather guarantees are issued to U.S. banks which, in turn, make available short-term lines of credit to foreign local banks in order to finance imports from the United States.

How do you reconcile the TCIP's goal of increasing LDC imports with the goal of this Government and the IMF which is to assist developing countries reduce their external debt, often by limiting or curtailing foreign imports?

MR. BROWN: We do not believe there is any conflict here; to the contrary, as has been noted, TCIP does not involve long-term government to government debt but rather very short-term commercial transactions between a U.S. exporter and a Central American importer. These imports are the raw materials or intermediate goods for business transactions which produce revenues locally and foreign exchange from those products which are exported.

SENATOR INOUYE: How do you ensure that trade credits provided under TCIP are not used to finance luxury imports at the expense of basic commodities in the LDC's?

MR. BROWN: Although the authorizing legislation for TCIP stated only that credits would be for "goods and services for the use of the private sector in Central American Countries, it is clearly A.I.D. and Eximbank's intent that these be for productive inputs. Essentially, TCIP can be used for importation from the United States of raw materials, spare parts, construction materials and equipment for production or services related to production.

Each participating U.S. bank provides Eximbank with a monthly report of transactions which are reviewed by both Eximbank and A.I.D. In the event of a need for further clarification, the U.S. bank, participating country central bank or A.I.D. mission, as appropriate, is requested to verify the eligibility of the transaction.

TCIP PROGRAM UNDER-UTILIZED

SENATOR INOUYE: I understand that utilization of your program has not been as great as originally anticipated. In FY 1985, the year of TCIP's creation, Congress provided $300 million in guarantee authority, which was subsequently renewed at $250 million in FY 1986; $275 million in FY 1987; and $200 million in FY 1988. The largest amount of letters of credit in force at any one point has been approximately $100 million. It now appears that the earlier assumptions of the Kissinger Commission may have overestimated actual credit demand and underestimated its possible supply from other sources.

To what do you attribute this apparent lagging credit demand in Central America?

MR. BROWN: Actually, utilization of TCIP has picked up substantially. The $139 million in outstanding letters of credit in September of this year, for example, was $40 million greater than at the same time in 1987. We feel its utilization will increase although we do agree that the original estimates of the

Kissinger Commission may have been somewhat higher than the actual level of demand.

The use of TCIP or any other dollar denominated credit facility is constrained to a degree by the pervasive fear of devaluation by the private sector in Central America and by the varying availability of foreign exchange to pay obligations in Central American countries.

SENATOR INOUYE: What could you be doing to stimulate the supply of local credit in Central America and would these actions involve additional congressional authority?

MR. BROWN: A.I.D. is assisting in increasing the supply of local credit in Central America. Both direct A.I.D. financial projects and local currency made available from host country counterpart to our ESF programs are adding to credit supply. Interest rate policy reform leveraged by our ESF programs also is a factor which should help increase credit availability. No additional congressional authority is needed at this time.

COSTA RICA

SENATOR INOUYE: Legal restrictions on Costa Rica's Central Bank have affected its ability to guaranty repayment by private banks. As a result, the operation of the TCIP program has been impaired.

Who placed these restrictions on the Costa Rican Central Bank and what effort has been made to lift them? Have these efforts been successful?

MR. BROWN: Under Costa Rican law the Central Bank cannot guarantee the short term borrowings of the private sector banks. One solution suggested was to have the public sector banks provide the guarantee; however, the fees involved for the guarantee would have made the private banks uncompetitive. Thus, the private banks are not presently participating in TCIP.

SENATOR INOUYE: Have these restrictions on Costa Rica's Central Bank affected your operations in the country?

MR. BROWN: If the problem of the guarantee were to be worked out, it is estimated that perhaps $5-10 million in additional credit transactions might be financed under TCIP in Costa Rica.

HONDURAS

SENATOR INOUYE: I understand that your activity in Honduras was temporarily suspended in September 1987, pending repayment of arrearages on other Ex-Im Bank lines of credit.

What are you doing to resolve this credit problem with the Government of Honduras?

MR. BROWN: The suspension you refer to occurred when Eximbank declined to renew its own $10 million short-term facility due to arrears and claims under other Eximbank programs. These arrears have since increased and there are also pending arrearages under TCIP itself. A.I.D. and Eximbank have made a concerted effort to resolve this matter with the Central Bank of Honduras. The Central Bank is presently considering a plan for repayment which would permit reinstatement of TCIP and the Eximbank line.

SENATOR INOUYE: How responsive have you found the private banking sector to the problems faced by the government?

MR. BROWN: Prior to the suspension of the Honduras TCIP line there had been disagreement between the Central Bank and the commercial banks on their responsibility for making dollars available to pay obligations. We are informed that this matter has been resolved and that once TCIP is reinstated it will no longer be a problem.

PANAMA

SENATOR INOUYE: What was the extent of TCIP exposure in Panama at the start of the recent disturbances and what is the extent of you exposure now?

MR. BROWN: Because Panama has a dollar-based economy, the Government of Panama was not interested in participating in the program. The TCIP program has never operated in Panama and there has, therefore, been no exposure.

QUESTION BY SENATOR KASTEN

TRADE CREDIT INSURANCE PROGRAM

SENATOR KASTEN: Mr. Brown, the Trade Credit Insurance Program was authorized in 1984 as a temporary measure to benefit countries who were then in severe economic crisis. The original thinking was that if the TCIP was doing its job, it would do itself out of a job after the three years authorization had elapsed. Now you are recommending that the program be extended through 1992.

Why should we agree to this? Is the economic crisis which birthed the TCIP as strong as it was in 1984? If so, aren't we to assume that you're not doing your job? Do you think it's healthy to encourage the banking community to rely on what is by design a stopgap program?

MR. BROWN: As you know, the Trade Credit Insurance Program (TCIP) was one element of a larger program proposed by the Kissinger Commission to bring economic stabilization and growth to the Central American region. While the region, with U.S. assistance, has begun to reverse the effects of the earlier crisis and some countries are achieving positive growth, many of the conditions which led to the crisis remain. These include suppressed prices for traditional exports, external debt service burden and the continued level of political tension in the area which makes it a high risk environment in the view of U.S. commercial banks.

Although TCIP was authorized in 1984, due to procedural delays it has only been fully operational for two and one-half years. However, the program has become a definite factor in restoring trade relations between U.S. banks and their Central American counterparts. Without TCIP, U.S. banks would not yet be willing to provide the level of trade credit made possible by TCIP. I believe the proposed extension is both reasonable and necessary.

U.S. TRADE AND DEVELOPMENT PROGRAM

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

GROWTH IN TDP FUNDING

Senator Inouye: From the creation of the Trade and Development Program in 1980, through 1988, the TDP budget has grown by approximately 510 percent (CP.2).

How does this compare to the growth in TDP-assisted exports during the same period, 1980-1988?

Mrs. Frame: From 1980 to 1988 TDP's budget increased from $4.9 million to $25 million, an increase of 510 percent or 5 times the original budget. During this same time period exports resulting from TDP-financed projects increased from $253 million to $1.2 billion, an increase of 474 percent or 4.7 times our first year of exports. We believe, however, that this number is only the tip of the iceberg. It can take many years to reap the benefits of investment from a feasibility study. The lag time between TDP's involvement in a project at the initial planning stages and the follow-on implementation and procurement phases can be as long as ten to twenty years. Accordingly, we are not yet able to ascertain the actual incremental growth of exports in relation to TDP's increased budget over the past eight years.

DOING BUSINESS IN CHINA

Senator Inouye: I understand that you have become increasingly involved in the promotion of U.S. business with the People's Republic of China. In your prepared remarks you state that the China program has grown from 5 percent of TDP's worldwide program in FY 1980 to almost 25 percent of the program in 1988.

What long-term opportunities exist for Americans doing business in China, and how has TDP assisted them to gain a comparative advantage over their Japanese and Korean rivals?

Mrs. Frame: Long-term opportunities exist for U.S. firms doing business in China in terms of equipment sales, technology transfer and investment in a wide range of sectors. As China proceeds with its modernization program, emphasis is being given to the energy sector, including oil and gas, coal and electric power, as well as a wide range of high-tech areas such as telecommunications and electronics. Chinese purchases of imported equipment in these sectors are growing dramatically.

The World Bank is devoting increasing resources to China, with loans on the order of $1.5 billion per year for projects in energy, industry and infrastructure. In an effort to assist U.S. firms to gain an advantage over our competitors, TDP has increasingly linked its feasibility study grants to these major World Bank loans. In addition, as an adjunct to its traditional feasibility studies, TDP is also funding orientation visits to the U.S. by Chinese decision-makers to familiarize them with U.S. equipment and technology.

We believe that by providing U.S. firms with the opportunity to become involved in projects in China at the very early planning stages, they will gain a comparative advantage over their Japanese and Korean rivals on those projects and potentially on other projects in similar sectors.

Senator Inouye: What have been some of your most notable successes in assisting American business to break into the enormous Chinese market?

Mrs. Frame: One of the early TDP projects in China was the Tianshengqiao hydropower project for which TDP funded a $400,000 study. As a result of recommendations made by Harza Engineers, the U.S. consultant engaged by the Chinese for the study, over $20 million in U.S. tunnelling and other construction equipment was exported to China for this project. The relationships developed by Harza in carrying out the study have also led to additional engineering work for that company on other Chinese hydropower projects. Another recent success was the Shidongkou power plant project, where TDP funded training in the amount of $1.25 million. This led to over $100 million in U.S. exports of engineering services, boilers and other equipment for the project.

Senator Inouye: What are the problems which are unique to doing business in China and how have they been overcome using TDP resources?

Mrs. Frame: One of the unique problems of doing business in China is the high cost of establishing a business presence in the country. The China market cannot be developed overnight, and TDP assistance in funding feasibility studies, consultancies and other planning services helps U.S. companies to sustain the continuing presence in China that is necessary for long-term success.

Another problem for U.S. companies is the general unfamiliarity of Chinese buyers with U.S. equipment and technology. In an effort to overcome this problem, TDP has, as mentioned above, begun to fund orientation visits to the U.S. by Chinese decision-makers. TDP also has begun an experimental program of funding freestanding training programs to give Chinese technicians hands-on exposure to U.S. equipment and technology.

THE PHILIPPINES

Senator Inouye: I understand from your prepared statement that your program has been particularly active in the Philippines with that country being the third largest recipient of TDP funding for years 1981-1987. As you may be aware, the Congress and the Administration are reviewing what steps can be taken to reinvigorate the Philippine economy. One proposal now under active consideration is the so-called "Marshall Plan" which would involve the channeling of new investment into the country from both bilateral and multilateral sources.

What role might TDP play in a "Marshall plan" for the Philippines?

Mrs. Frame: TDP is aware of the development of a "Marshall Plan" for the Philippines and has been briefed by USAID on its efforts to construct the plan. We believe that TDP's principal contribution lies in continuing to expand our overall program in the Philippines. TDP's program involves assisting the country in the early planning stages of major projects, and as such, our role in the plan, if any, would likely be in the area of major public sector infrastructure projects. In this regard, we work closely with the National Economic Development Authority (NEDA) in project selection.

Senator Inouye: What sectors of the Philippine economy have benefited from the approximately $4.6 million which TDP has obligated to projects in the Philippines?

Mrs. Frame: TDP has obligated funds in the Philippines in the areas of hazardous waste, telecommunications, transportation (including ports, railways and airports), power generation (including co-generation, geothermal, renewable and conventional energy) and agribusiness.

THE STATES EXPORT PROGRAM

Senator Inouye: In last December's Continuing Resolution Congress authorized you to spend up to $5 million in a cooperative program with State governments to promote State exports. I understand from your prepared statement that you already have entered into activities with approximately ten states and have scheduled a series of seminars with State export development representatives to explore avenues of further cooperation.

How much of the $5 million authorized by Congress for the States has been obligated?

Mrs. Frame: TDP expects to obligate slightly over $2 million in FY 1988. Since last December, when Congress authorized this program, we have spent much of our effort on learning about the various state programs. We are just now beginning to identify and obligate projects which we believe will be successful and will show measurable results. We are confident that as we extend information about the program to more states, we will find additional ways to work together to promote U.S. exports.

Senator Inouye: How much interest have the States shown in the new TDP program?

Mrs. Frame: We have been pleased and encouraged by the responses of the state export development officials, who have shown a strong interest in utilizing TDP funds in very responsible ways. Most of the state export programs have very specific goals and limited personnel, but the officials with whom we have met have expressed a strong interest in working with TDP to develop meaningful projects that meet our mutual objectives.

Senator Inouye: How has the new program been advertised?

Mrs. Frame: We were interested in getting good information about the states' programs and needs prior to making determinations about how TDP might best work with the states. Therefore, we started our outreach efforts as part of an information gathering process. In June, we held a seminar with several states to discuss both the states' and TDP's programs. We selected and invited seventeen states based on the size of their export development staffs and budgets. We used this information to help develop funding criteria and to solve potential problems in implementation prior to extending our program to other interested states. We plan to hold a second seminar sometime in the fall and will invite at least 20 additional states. We have also held discussions with multi-state groups such as the National Governor's Association to ensure that we are aware of those organizations' export development activities.

Senator Inouye: What is the procedure for awarding funding?

Mrs. Frame: In general, funding to assist state export development must be related to TDP's program activities and will not be given in the form of a general support grant. Preference will be given to activities which are co-funded by the states.

We are exploring several different ways to fund these activities and are most interested in those proposals which can demonstrate a method for measuring results. One funding method is a direct grant to the state government for a specific, well defined project related to TDP activities. Another is a contract to a private entity to work with several states in a particular industrial or subject area, or to assist exports to a specific country from states with common interests. A third is a grant to a non-profit organization with a particular expertise--the training of a state's potential exporters, for example. Another approach is to fund reverse trade missions to the U.S., where pre-selected buyers are brought to the states in order to promote businesses or industries in those states. We have been pleased at the states' willingness to cooperate with one another on this type of multi-state activity.

We appreciate the flexibility which Congress has granted TDP to implement this program. It allows us the opportunity to use a problem-solving approach to develop activities that are appropriate for different situations.

MANAGEMENT OF TIED AID CREDITS

Senator Inouye: I understand that the Administration opposes transferring the authority to issue tied aid credits from AID to TDP--authority which would consist of grants and concessional financing provided to U.S. exporters using Economic Support Fund monies. Under the Omnibus Trade Legislation now pending before the Senate, the TDP Director is authorized to use ESF funds for tied aid credits with the "concurrence" of the Secretary of State, who is to "cooperate" with the AID Administrator.

Is it your view that this provision contradicts language in the FY 1988 continuing resolution requiring that TDP consult directly with AID on the use of ESF funds?

Mrs. Frame: The language in the pending omnibus trade legislation authorizing the TDP Director to use Economic Support Funds for tied aid credits with the concurrence of the Secretary of State, who is to cooperate with the AID Administrator in giving that concurrence, conflicts with the FY 1988 Appropriations Act which provides that no Economic Support Funds shall be used for tied aid credits without the prior approval of the AID Administrator.

TDP TRAINING PROGRAMS

Senator Inouye: I understand from your prepared statement that you are exploring several initiatives in the area of trade-related training. You note that this might take the form of a training grant to a host government as a final incentive to select a U.S. firm.

Have any foreign governments or U.S. manufacturers expressed an interest in this type of program?

Mrs. Frame: There is evidence that most of the industrial nations from time-to-time provide some type of trade-related training grants when competing for projects in the developing world. At this time, most of the data we have is anecdotal, and is related to specific projects on which TDP is considering making a grant.

The U.S. private sector, when faced with this type of competition, is extremely interested in TDP's ability to offer comparable grants on a given project. The foreign host nation, of course, is always pleased to receive a grant of training.

Senator Inouye: Is trade-related training currently being carried out by the main trade competitors of the United States? If so, which countries are involved and how successful have they been in increasing their exports?

Mrs. Frame: Most of the information we now have is anecdotal in nature. We are aware that JICA, for example, the Japanese agency comparable to TDP, has established a telecommunications training center in Beijing. CIDA, the Canadian agency, has established a training institute for air traffic control for trainees from developing nations. We are also aware of several examples of training grants offered by the French, Japanese and the Danes on specific projects where there were U.S. competitors. TDP requires evidence of this type of foreign competition before TDP will consider awarding a similar grant on behalf of U.S. competitors.

We do not know how successful other countries have been in increasing their exports in this way. We do know that on several occasions, TDP has been successful in assisting U.S. firms to obtain major contracts by using this approach. We are considering undertaking a study to attempt to get more systematic information about the frequency of this type of grant and the evidence of its success in promoting exports from the donor nation.

HAWAII ENERGY CONFERENCE

Senator Inouye: I understand from your prepared statement that TDP plans to provide a $50,000 grant for an international conference and trade show on renewable energy in Hawaii later this year.

What do you hope to achieve from this conference?

Have you made any attempt to combine your efforts with OPIC which is also planning a renewable energy conference in Hawaii this year?

Mrs. Frame: The Hawaii Renewable Energy Conference offers a unique opportunity for participants to learn about the latest advances in renewable energy technologies and to visit fully operational cost-effective renewable energy projects in Hawaii.

By bringing utility energy executives from the Pacific Rim countries together in one location with U.S. equipment and service vendors, federal and state government officials and U.S. utility executives, the conference offers excellent contact and networking opportunities which would otherwise be more difficult and more expensive to arrange. From these contacts, we anticipate the identification of specific business opportunities which can be pursued through a state-federal-private sector approach.

In deciding to give a grant to support the Renewable Energy Conference in Hawaii, TDP was guided by the recommendations of the Trade Events and Conference Task Force of the interagency private sector Committee on Renewable Energy Commerce and Trade (CORECT). The Hawaii conference was highly recommended by the Task Force. Several agencies, including TDP and OPIC, were asked to participate in the conference and TDP agreed to sponsor the travel of selected Pacific Rim energy officials to the conference. Other agencies are participating in ways appropriate to their own programs.

PRIVATE SECTOR FEASIBILITY STUDIES

Senator Inouye: I understand that the Trade and Development Program spends approximately 10 percent of its budget financing feasibility studies with U.S. private sector investors.

Is this funding recouped if the venture is unilaterally terminated?

Mrs. Frame: Yes, TDP recoups the funding in the event the venture is unilaterally terminated by the investor. TDP funding for the private investor program is provided on a four year, no interest basis, and is evidenced by a promissory note signed by the investor. The promissory note must be paid by the investor after the four year period whether or not the project goes forward, and whether or not it is a success. The unconditional obligation to repay the promissory note is made clear to potential investors when they apply for TDP assistance.

Senator Inouye: How are private sector initiatives selected as candidates for TDP funding? What types of export initiatives are viewed as having a high funding priority?

Mrs. Frame: The main criterion for selecting private sector candidates for TDP funding is the export potential of the project. Since TDP is an export promotion agency, the investor assistance program focuses on those projects which show the greatest promise of generating exports. An equally important consideration is whether the investor has the financing necessary to see the project through to completion. Therefore, those projects which show the greatest export potential and the most solid financial backing are the ones viewed as having a high funding priority.

Senator Inouye: Have you given any thought to the creation of a revolving fund which would recycle dollars from successful TDP-sponsored enterprises to new ventures in need of funding?

Mrs. Frame: TDP does not believe that the creation of a revolving fund would be advantageous. The reason for creating a revolving fund is to provide a permanent source of financing for an activity which is not subject to the timing problems associated with annual appropriations. TDP presently receives its funding annually from Congress as a separate line item in the Foreign Assistance legislation. Since most of TDP's funds are spent on financing public sector feasibility studies, there does not appear to be any advantage in having a revolving fund for an activity which has traditionally comprised only about 10% of TDP's annual budget. TDP would, however, prefer to avoid annual timing problems associated with annual appropriations by having its funding designated as no-year funding. TDP has requested this change in the legislation. It appears that no-year funding would be a more advantageous way of managing the investment assistance program.

RETURN ON INVESTMENT

Senator Inouye: I understand that one of your program objectives is to achieve a return on investment of approximately 75-to-1 (e.g. every dollar invested by TDP will return $75 dollars in new U.S. exports?

How have you fared in reaching your goal of 75-to-1 return on your investments? How does this compare to the private export-oriented venture capital market?

Mrs. Frame: Last year, TDP contracted with Ruth Ruttenberg and Associates to conduct a study of actual and projected exports for all TDP project obligations. The Ruttenberg report conservatively projected U.S. exports on TDP-funded activities to date (December, 1987) at over $8 billion by 1998. This means that for every dollar TDP spends it will receive a return of better than 75 to 1 on its expenditures. To date the TDP financed studies have generated in excess of $1 billion worth of U.S. exports. This gives an actual return of 10 to 1.

Obviously a TDP-financed feasibility study will not generate exports until the project studied begins to be built. As a result, there is often a five to ten year lag time between a TDP expenditure and the exports it generates. That is why we are just beginning to see the export results of TDP's early efforts. For example, TDP's budget in 1981 was $5.5 million. TDP's activities obligated in that year have led to the actual sale of $253 million in U.S. exports, and those exports are still growing. The already-realized return on FY 1981 funds is 46 to 1.

There is not a direct comparison between TDP's return and the "return on investment" of a privately financed venture. TDP supports projects that appear at the early design phase to be likely to generate U.S. exports equal to 75 times or more TDP's financing of the feasibility study. The reason for this rule of thumb is to support export-intensive projects. However, this concept of a "return" on TDP's financing is very different than the concept of a return on investment as it is used in the capital markets.

Return on investment in the private export-oriented venture capital market means--what percentage growth will invested capital yield? In other words, an investor in a venture expects to get his money back plus some percentage increment that makes it worth his while to invest his money in the first place. The higher the risk, the greater the percentage increment required. Non-risky ventures return about 8 percent. Higher risk ventures may return 22 percent. An extremely risky venture might return 45 percent.

In contrast, TDP's funds are spent on engineering and planning services for projects in the form of feasibility studies. TDP funding for feasibility studies is different from the financing of the actual project itself, where the concept of "return on investment" would have direct applicability.

EARMARKING TDP FUNDS

Senator Inouye: Do you support the protection of TDP funds through congressional earmarking?

Mrs. Frame: Because TDP is an independent component agency of the International Development Cooperation Agency, TDP funds are now a separate line item in the foreign assistance budget. We find that under this arrangement, we receive the level of Congressional attention we require to plan and effectively implement our program.

MIXED CREDITS

Senator Inouye: Why does the Administration oppose the idea of TDP using mixed credits?

Mrs. Frame: The Administration is opposed to the provisions in the Trade Bill that would require TDP to take the lead in administering Economic Support Funds (ESF) for mixed credit financing. It is the Administration's view that the AID Administrator should continue to be responsible for decisions on the use of ESF funds for mixed credit financing.

Senator Inouye: How has your authority to use mixed credits advanced the aims and objectives of the Trade and Development Program?

Mrs. Frame: On a limited basis, TDP has offered to finance the training costs related to the implementation of selected infrastructure projects provided that an American firm is selected as project contractor. We have done this only where U.S. firms are facing stiff competition and there is an indication that the competitor companies have subsidized financing from their respective governments. We believe that in these selected instances this use of our funding has been effective in advancing the objectives of TDP. The training grant is often enough incentive to swing the procurement decision in favor of the U.S. company. For example, TDP provided two training grants totalling $1.25 million to assist two U.S. companies in winning contracts related to the Shidongkou power plant project in China. The Export-Import Bank provided a direct loan for partial financing of the project. This package of Ex-Im loan financing and TDP grant financing resulted in two U.S. companies winning contracts of over $100 million. Obviously, the extent to which TDP can use its funds in this way to help U.S. firms win large contracts and thereby achieve TDP objectives of increasing U.S. trade depends on available resources.

AFRICAN AND LATIN AMERICAN FUNDING LEVELS

Senator Inouye: I note from your congressional presentation that of the top 10 countries receiving TDP funds from FY 1981 to FY 1987, none are from Africa and only one, Colombia, is from the whole of Latin America?

Why have you tended to focus your resources on Asia over Africa and Latin America?

Mrs. Frame: TDP selects its projects in response to requests from foreign governments, private U.S. contractors, and suggestions from other U.S. government agencies such as the US Foreign and Commercial Service and USAID. The actual funds obligated for projects in any region tend to reflect the volume of requests for project funds in that region (with the exception of China, where there are always more requests for funding than TDP is able to fulfill). Even without including China, it is certainly true that a very large volume of TDP requests for funds are in Asian countries. These are also the countries where the Japanese competition is most active. Requests for funding in Africa and Latin America are less frequent, we suspect, because of the debt problems in those two areas of the world.

However, we would like to point out that in FY 1986 and 1987, 17 and 16 percent respectively of the TDP budget was spent in Africa. Although most of our African studies tend to be for relatively smaller projects (in keeping with the capacity of most African nations) the TDP rate of success in Africa is high, and Zimbabwe is the seventh highest recipient of TDP funds in the period from FY 1981 to FY 1987.

TARGETING U.S. EXPORT POTENTIAL

Senator Inouye: How does TDP identify newly emerging markets for U.S. exports?

Mrs. Frame: TDP relies upon a number of information sources to keep abreast of current trade trends and commercial markets. TDP Regional Officers gather information through their extensive contacts in the Departments of Commerce, State, Labor and Energy. They interact daily with the multilateral development banks and the U.S. private sector. By traveling to the countries within their regions, the TDP officers maintain close contacts not only with the Foreign Commercial Service Officers in their respective regions but also with host government officials. TDP staff analyze trade information available from numerous publications. Through these various sources, TDP staff are able to assess the competitiveness of U.S. technology and keep abreast of emerging markets in their particular areas.

Senator Inouye: What percentage of TDP funds are directed toward small business initiatives? How do you define small business?

Mrs. Frame: Most of TDP's funds are granted directly to the host countries which in turn use internationally accepted competitive means to select a U.S. contractor. Of those contracts awarded directly by TDP, approximately 85% are awarded to small businesses. This high ratio is due to the fact that most direct contracts fall into the "small purchase" category. The Federal Acquisition Regulation requires that purchases of this type be awarded to small businesses.

TDP also uses the Federal Acquisition Regulation definition of a small business in 48 CFR Part 19.001. The regulation states that a "'Small business concern' means a concern, including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualified as a small business under the criteria and size standards in 13 CFR Part 121..."

TDP SUCCESS STORIES

Senator Inouye: In the AID Congressional Justification document you have a section entitled "TDP Success Stories".

What activities of the Trade and Development Program have been unsuccessful and why?

Mrs. Frame: The section entitled "TDP Success Stories" provides examples of projects which have already generated a large amount of U.S. exports. The section was not intended to list all the projects which have resulted in U.S. exports, only the exceptional ones.

Some projects do not produce U.S. exports for a variety of reasons, including changes in project financing, exchange rates, government leadership, or a country's priorities. Sometimes projects are delayed, resulting in a concomitant delay in the time when U.S. goods are exported. TDP also funds some activities in which it is more difficult to trace exports resulting directly from the activity. Nonetheless, these activities do have a positive effect on business relationships between the U.S. private sector and the host country buyers.

TDP has made changes in its U.S. private investor reimbursable grant program because it was determined that the program was not particularly successful in achieving TDP's objectives. Under this program, TDP would agree to finance up to half the costs of the feasibility study undertaken by a U.S. investor interested in making an equity investment abroad. TDP found that too many of the studies never developed into projects. As a result, the program was suspended and new criteria for funding were developed. Under these new criteria TDP is better able to determine that the project has the financing to proceed to implementation before it offers support for the feasibility study. We anticipate that TDP's newly established Investor Assistance Program is more likely to have a favorable impact on increasing U.S. exports than the former program. This is an example of how TDP uses its program flexibility to experiment, evaluate, and redirect funds if and when warranted.

NO TIME LIMIT ON TDP APPROPRIATIONS

Senator Inouye: Would you like to have your funds appropriated without a time limit?

Mrs. Frame: This would be most helpful to TDP in several ways. First, it would facilitate TDP's end-of-year obligation process. In order to prevent overobligating our funds in a given fiscal year TDP must exercise caution at the end of the fiscal year to ensure that our obligations do not exceed our authority. Good projects may "fall out" at the end of the year due to timing problems, political issues within a country, or simply bureaucratic delays. TDP sometimes has difficulty making last minute end-of-year changes in order to fully obligate all the funds. "No year" funding would help us to plan our obligations in a way that is related to the timing needs of the project, rather than an artificial deadline. Secondly, a project once obligated will occasionally not go forward or may not use all of the funds obligated. Unless this is known in the same year as the obligation, with time to deobligate and reobligate, the money may not be reused for TDP purposes.

Senator Inouye: Why has the President failed to make this request to Congress?

Mrs. Frame: For the last two years, this proposal was included in the President's Budget Request to Congress.

JOINT VENTURES

Senator Inouye: Do you encourage joint ventures between American firms as a vehicle for competing more effectively against the Japanese?

Mrs. Frame: We have found that, for a variety of reasons, U.S. companies do not take advantage of the joint venture mechanisms as frequently as the Japanese do. To the extent that it is feasible, TDP encourages joint ventures between American firms. We are hoping that we may be able to use information obtained through our state program to encourage companies to work.

ENERGY

Senator Inouye: In your congressional presentation, you state that since FY 1980, TDP funding has concentrated most heavily on the energy and infrastructure sectors in the developing world. The energy sector accounted for 31 percent of the funds obligated by TDP in FY 1987?

Of the 31 percent, how much of this amount was devoted to the export of renewable energy technology?

Mrs. Frame: Of the 31 percent of TDP funds obligated for the energy sector, in FY 1987, 15 percent of this amount was obligated for renewable energy technology. This percentage is composed of several projects ranging in technology from wind energy to hydro-power. For FY 1988, TDP plans to obligate approximately one million dollars (increase of approximately 2%) to fund renewable energy studies in Latin America, Asia, and Africa. We are also providing financial support to a renewable energy conference in Hawaii which is oriented towards the Pacific Rim markets. The developing and middle-income countries are just beginning to appreciate the application of renewable energy technology. As the interest and understanding of its capabilities grow, so too will the export of this technology from the U.S.

THE PHILIPPINES NATURAL GAS RESERVES

Senator Inouye: I understand that the Philippines holds large reserves of natural gas.

Have any American companies been licensed by the Government of the Philippines to tap these reserves?

Have you funded any feasibility studies in connection with energy extraction in the Philippines and the market for U.S. equipment and services which might exist?

Mrs. Frame: We have not been approached by the Philippine government or by any private U.S. entity to fund a study relating to natural gas reserves in the Philippines. We have recently, however, made a grant to the Philippines for a co-generation power plant study and are likely to fund activities related to electricity generation from rice husks (renewable energy), additional co-generation and geothermal exploration and development. We are also exploring the Build-Operate-Transfer concept with the Chase Manhattan Bank and the National Power Corporation. All of these projects could be expected to yield exports of energy exploration, extraction and distribution equipment and services.

COORDINATION WITH OTHER AGENCIES

Senator Inouye: What coordination do you have with other Government agencies such as AID, OPIC, and the Ex-Im Bank in targeting export markets in developing countries?

Mrs. Frame: Whenever appropriate, usually on a particular project, TDP works closely with the Ex-Im Bank, AID, or OPIC to target export markets in developing countries. TDP also works closely on a regular basis with the U.S. and Foreign Commercial Service and the International Trade Administration. Examples of this cooperation include: joint financing with AID of a refinery project in India; joint financing with Ex-Im Bank on the Shidongkou power plant in China; joint financing with AID on an energy project feasibility study in India, TDP cooperation with AID on private power issues in Pakistan; TDP cooperation with

Ex-Im, Commerce and AID on the states program, and daily cooperation with the FCS in each country where TDP has a project. TDP also works closely with U.S. government technical agencies when those agencies are involved in a major project overseas.

TECHNOLOGY TRANSFER

Senator Inouye: In your view, how have U.S. controls on technology hampered U.S. exports?

In what areas do you feel U.S. technology export controls are unreasonably stringent?

Mrs. Frame: TDP is an implementation agency and is not currently part of this policy debate in the U.S. government. These issues cut across all Federal agencies engaged in export development activities. It is conceivable that a TDP decision to support a feasibility study might be affected by limitations on the U.S. private sector's ability to export the technology associated with the project.

STAFF MANAGEMENT

Senator Inouye: How many members of your staff have had practical experience as owners, operators or founders of businesses?

Mrs. Frame: Several members of TDP's current staff have had practical experience as owners, operators or founders of businesses. Nearly all of the TDP staff have had experience working in the private sector.

Senator Inouye: Is there any area in which your office lacks technical expertise?

Mrs. Frame: Because of TDP's need to disseminate information to the states and the private sector, and because of TDP's need to quickly retrieve and assimilate information related to the competitiveness of the U.S. private sector, we are considering hiring someone with a computer background to help us keep abreast of current technologies and to more easily access and disseminate information.

Although most members of the TDP staff have background in at least one industry or region, most are international trade specialists rather than engineers. This is necessary because of the broad geographical as well as industry areas which must be covered by each staff member. We actively engage the private sector to provide the detailed information and expertise that TDP staff do not possess. We find that this is the most efficient way for TDP to deploy its personnel and financial resources to meet its program objectives.

Senator Inouye: What percentage of your work is performed in-house and how much is contracted out to private consultants. Has this amount grown or declined in recent years?

Mrs. Frame: Approximately 54% of our operational funds are used for salaries and benefits for TDP employees, and approximately 12% is for work contracted out to private consultants. While there has been some growth in both categories in recent years, we anticipate no major changes in the ratios.

STAFF MANAGEMENT

Senator Inouye: What is the size of your staff and how adequately are they able to cope with your present project load?

Mrs. Frame: TDP currently has a total staff of 21 project and support professionals. The program has functioned adequately in the past with this level of personnel. We are reviewing our needs to determine what increases are necessary to handle certain operational areas, such as automated data systems, and new program authority, such as the State program.

Senator Inouye: How many requests for funding did you receive in 1987 over the number TDP was able to fund?

Mrs. Frame: TDP funded 107 activities in FY 1987. For every one activity funded, approximately 10 requests were reviewed.

WOMEN AND MINORITIES

Senator Inouye: What percentage of TDP-funded projects are minority run or controlled?

What percentage of TDP-funded projects are run or controlled by women?

What is TDP doing to encourage more minority and women-owned and operated businesses to take advantage of its services?

Mrs. Frame: When TDP makes a grant to a host nation for a feasibility study, the selection of the U.S. contractor is made by the host country. The host countries, in turn, use internationally accepted competitive selection procedures to select the U.S. firm to conduct the work. TDP is not a party to these host country contracts and does not participate in the selection of the contractor.

Of those contracts awarded by TDP, approximately 46 percent of FY 1988 funds have been awarded to minority or women owned businesses.

TDP has encouraged the participation of both minority and women-owned businesses by requesting them to register on our contract solicitation list. We are optimistic that our cooperative program with the states will give us greater access to small, minority and women owned businesses. In addition, TDP has used the 8(a) program administered by the Small Business Administration to subcontract with minority businesses.

THE ENVIRONMENT

Senator Inouye: I understand that the bulk of TDP funds are provided as grants to foreign governments to finance feasibility studies for public sector projects that are frequently financed by the World Bank or by regional development banks. In recent years pressure has mounted on these institutions to consider the environmental impact of their initiatives (CP.5).

Does TDP require that, where appropriate, the feasibility studies funded under its auspices consider a project's environmental impact?

Mrs. Frame: Because TDP funded studies are conducted at the pre-feasibility and feasibility stage of a project, TDP does not require that its studies consider a project's environmental impact. In most cases the appropriate stage for environmental consideration is at the project development stage.

TDP has a strong interest in environmentally sound projects, however. As noted in our Congressional Presentation and testimony, we have made hazardous waste and toxic waste a priority sector within TDP. We should note, however, that TDP funds are expended for the purpose of promoting U.S. exports on major projects overseas. As such, once the project priority and financing availability are ascertained, the main criteria used by TDP to determine whether to proceed with a project is whether or not the U.S. is competitive and whether project-related exports are likely to result from TDP participation. While TDP supports the use of an environmental assessment at the appropriate stage of a project, funds for the assessment should be appropriated separately from export development funding in order to make sure that program remains accountable.

QUESTIONS SUBMITTED BY SENATOR KASTEN

TIED AID

Senator Kasten: The Tied Aid credit program established under section 645 was intended to be a means of combatting predatory financing of donor countries competing with the U.S. for exports. Since it draws only on ESF resources and utilized the commodity import program, the eligibility of countries for this program changes from time to time.

Would you tell the subcommittee to which countries the tied aid credit program currently applies?

Mrs. Frame: In response to the legislation of the Trade and Development Enhancement Act of 1983, the Agency for International Development, which administers this program, included language in the existing commodity import program grants to implement the tied aid credit program. Currently the tied aid credit program applies to:

Egypt

Liberia

Mauritius

Seychelles

Tunisia

Kenya

Sudan

TIED AID CAP

Senator Kasten: Last year, we established a $5 million cap on the tied aid credit program established by section 645 of the Trade and Development Enhancement Act of 1983. We intended the cap to apply only to credits provided specifically in response to section 645 of that act, and not to any other financing, even if it involves co-financing.

Is it your understanding that the cap applies only to the transfer of funds from aid to the program created to implement section 645?

Mrs. Frame: It is our understanding that the $5 million cap applies only to funds utilized pursuant to section 645.

OVERSEAS PRIVATE INVESTMENT CORPORATION

QUESTIONS SUBMITTED BY SENATOR INOUYE

SENATOR INOUYE: Historically, what has been the yearly rate of delinquent OPIC loans?

MR. NALEN: In recent years, our direct loan write-off rate (total loan amounts written off divided by total loan disbursements) has been roughly 10%, a figure that is low, given the high risk of our projects which involve small businesses in Third World developing countries. This figure also compares quite favorably with that of other development institutions. We believe that this is the most accurate and relevant measure of loan "delinquency".

SENATOR INOUYE: What warning did you have that 30 of your loans were going bad? What remedial action did you take?

MR. NALEN: Any general characterization of the loans must take into consideration specific factors and issues related to the project. In any financial institution, it is not unusual to find certain loans temporarily in a delinquent status. Therefore, we do not agree with the statement that thirty of our loans were "going bad."

The thirty loans which the GAO cites as delinquent on page one of its study include loans which were late on payment for a variety of reasons, many not related to project operations, performance, or profitability. Loans can be delinquent because of currency conversion difficulties resulting from central bank or other bureaucratic delays and other governmental/political reasons. Also, included in the thirty loans were a number of loans which were being monitored very closely by OPIC or were in an active workout status.

We should also point out that the delinquency statistics cited by the GAO do not accurately reflect the overall status of OPIC's Finance Program, which operates on a self-sustaining basis and contributed $11 million to OPIC's gross revenues in FY 1987. OPIC has been very successful in fulfilling its policy mandates, in assisting highly developmental projects to overcome operational difficulties, and in actively pursuing workout and recovery efforts to minimize our actual loan losses.

Finally, as indicated in our earlier response, in connection with the Peat Marwick Main & Co. study, we have taken corrective steps to strengthen our credit analysis, credit approval, loan monitoring, credit review, and workout functions. In its study, the GAO concurred with OPIC's actions in this regard.

SENATOR INOUYE: In a recent GAO report on OPIC's loan management process, investigators questioned whether one $750,000 loan to Caribbean Teleview Services (CTS) in April 1987 was consistent with the agency's role to improve economic conditions in less developed countries, as opposed to wealthier nations. The loan was issued for the construction and operation of a cable television service which will be available to residents on the Dutch side of St. Maarten, in the Netherlands Antilles. Caribbean Teleview Services is a Netherlands Antilles corporation owned by two Americans and two St. Maarten nationals. The major investor is an American. (GAO/NSIAD-88-161, 12)

What is the developmental benefit of a project of this sort that would justify an OPIC loan?

MR. NALEN: This small Caribbean Teleview project in the Netherlands Antilles makes American educational, cultural, and news programming immediately accessible to residents of the island. In addition, the project provides employment, training for electrical technicians, as well as transfer of technology.

SENATOR INOUYE: Since your annual report cites the Netherlands Antilles as one of the higher income Caribbean nations, is it the best candidate, in your judgment, to receive scarce OPIC developmental funds?

MR. NALEN: Congress has expressed strong interest in OPIC's support of the Caribbean Basin Initiative (CBI) and facilitation of development throughout the Caribbean, including the higher income developing countries. OPIC's statute permits restricted activity in high income LDCs, including the Netherlands Antilles. Support of this project is within the scope of the restricted activities permitted by the legislation. Furthermore, it may be of interest to note that the House of Representatives in May 1988 approved a committee amendment to OPIC's reauthorization bill permitting unrestricted OPIC activity in all upper income CBI countries.

SENATOR INOUYE: How do you justify providing OPIC financing to the major investor in this enterprise who, purportedly, has a net worth of several million dollars and who would appear to be a good credit risk for obtaining business loans from commercial sources?

MR. NALEN: Although the sponsor had a significant net worth, his assets were primarily in real estate and his holdings were not very liquid. This factor made it difficult for him to obtain other financing. In addition, making this loan to a company which is a relatively strong credit risk compared to other small business investments in our portfolio, enables OPIC to better balance its credit risks. This is consistent with OPIC's congressional mandate for us to be prudent risk managers and to operate on a self-sustaining basis.

SENATOR INOUYE: I understand that last year OPIC awarded a contract to Peat Marwick Main & Co., a management consulting firm, to review its loan management process. In its report, issued in January of this year, Peat Marwick stated that OPIC has no formal policy defining the risks and losses that are acceptable in making loans and, therefore, the agency's credit analysis of proposed borrowers may be subordinated to developmental benefits of the project. (GAO/NSIAD-88-161, 20)

Have you taken any steps to develop a policy which provides direction on acceptable credit risk?

MR. NALEN: Yes. OPIC issued a formal lending philosophy statement on April 13, 1988, a copy of which is attached for your information.

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FINANCE PROGRAM PHILOSOPHY STATEMENT

Overview

OPIC's Finance Program was created by Congress as one of several tools for facilitating U.S. private investment in developing countries in the firm belief that such investment would promote economic and social development in friendly less developed countries, complement the foreign assistance objectives of the U.S. Government, enhance U.S. trade, and satisfy other current U.S. policy mandates. While attempting to satisfy these mandates, OPIC management seeks to operate its Finance Program on a self-sustaining basis overall and to ensure that its new loans meet acceptable levels of credit risk.

A. Evaluation Criteria

1. Credit (Commercial Soundness)

Proposed OPIC finance projects will be evaluated with respect to certain credit criteria, including (but not limited to) the following:

- Management (track record, depth)
- Sponsor financial resources and recourse
- Project commercial viability (marketing, etc.)
- Project financial viability (financial analysis and projections)
- Collateral security adequacy
- Country stability (political and economic stability, foreign exchange availability)

OPIC will not approve a loan to a project if it is obvious at the outset that the project will fail commercially (i.e. it does not adequately satisfy these credit criteria). OPIC nonetheless is willing to accept a high degree of credit risk (i.e. marginal satisfaction of these credit criteria, but reasonable likelihood of repayment), if the project satisfies other developmental, U.S. foreign assistance, and U.S. trade mandates as discussed below.

2. Developmental Effects

As a self-sustaining agency, OPIC seeks to further the developmental goals of the U.S. Government at no cost to the U.S. taxpayer.

OPIC-facilitated foreign investment can generate local employment, transfer technology, develop local technical, marketing and managerial skills, generate foreign exchange and tax revenues, and encourage capital formation and private sector development.

OPIC operates in countries where private commercial financial institutions often cannot provide adequate levels of credit for private sector investment, and gives preference to facilitating investment activity in the least developed countries.

All OPIC-assisted projects are consistent with each country's overall development objectives.

OPIC conditions its support for projects on investors' agreements to minimize any potential adverse environmental impact, and, when necessary, advises host governments of relevant U.S. and international environmental standards.

Proposed finance projects will be evaluated by OPIC with respect to host country economic development criteria, including (but not limited to) the following:

- Local employment generation
- Technology transfer
- Technical assistance/training
- Foreign exchange and tax revenue generation
- Value-added, non-traditional exports
- Positive environmental impact
- LLDC--level of per capita income, with preference to least developed countries
- Privatization

3. U.S. Foreign Assistance

OPIC promotes the U.S. Government's foreign assistance goals by supporting private sector investment in developing countries, and has the flexibility and adaptability to respond promptly to new foreign assistance initiatives.

OPIC seeks to promote U.S. foreign policy interests in key countries by assisting in the improvement of the economic environment. The increase in employment and foreign exchange generated by OPIC-facilitated investment contributes to an improved standard of living and economic growth.

OPIC recognizes that every project it supports reflects upon the U.S. Government and the U.S. business community and strives to assure that its investors are of high character and conduct their business affairs in a manner that brings credit to themselves, OPIC, and the United States.

Proposed finance projects will be evaluated by OPIC with respect to U.S. foreign assistance criteria, including (but not limited to) the following:

- Caribbean Basin Initiative
- Sub-Saharan Africa
- Other special target countries (e.g. Philippines, or a new OPIC country)
- New initiative in current FY
- Country adopting investment policy reforms

4. U.S. Effects

OPIC conducts thorough analyses of all projects to ensure that they will not have significant adverse effects on the U.S. economy.

By facilitating U.S. investment, OPIC assists in the development of new markets for U.S. goods and services. A multiplier effect is created as the host country standard of living and general economic conditions are raised, thereby facilitating additional U.S. trade and investment.

Proposed finance projects will be evaluated by OPIC with respect to U.S. effects criteria, including (but not limited to) the following:

- U.S. employment effects
- U.S. balance of payment effects
- U.S. trade effects
- Support of U.S. small business

B. Eligibility Criteria

Program eligibility criteria are set forth in detail in the OPIC Policy Manual, issued in December 1987.

Summary

OPIC's Finance Program thus seeks to assist eligible U.S. private investors, and small businesses in particular, by lending financial support to their projects in developing countries. The projects must first meet OPIC's credit standards; they must then also provide host country developmental benefits, further U.S. foreign assistance goals, and not significantly harm the U.S. economy or U.S. trade. In order for a host country or the U.S. to enjoy the benefits of an OPIC-assisted project, the project must succeed commercially; by adhering to our credit criteria standards, OPIC will fulfill its policy mandates as well as its responsibility to be self-sustaining and to exercise prudent management of public funds.

Due to its developmental mandate, OPIC will be taking risks that may not be acceptable to many commercial banks. That is, OPIC may approve projects meeting marginal credit criteria because of their positive developmental benefits. OPIC can also expect to incur some losses, operating in high risk developing countries. However, OPIC will strive to protect adequately its investment in the projects and to ensure that these losses are the result of events that could not reasonably be anticipated. OPIC's corporate goal will be to have a healthy, self-sustaining financial portfolio, which contributes to host country development and U.S. policy aims, with minimum losses.

SENATOR INOUYE: Have you formalized a policy addressing the types of collateral (e.g. project assets, investor guarantees, and U.S. assets), required from borrowers to reduce OPIC's financial risk?

MR. NALEN: OPIC seeks collateral appropriate in type and amount for the loan involved, primarily in the form of project assets, and supported by investor guarantees and U.S. assets as necessary. We are currently embodying a specific collateral policy in our written loan procedures manual which will be issued later this year.

SENATOR INOUYE: Last year mention was made during these hearings of the planned launching, by OPIC, of an innovative "Africa Growth Fund" in 1988.

What progress have you made in implementing this Fund? What are you doing to promote this Fund and attract American business to Africa?

MR. NALEN: While OPIC's experience in financing business enterprises in Africa is substantial, we judged that to put together the kind of effective investment fund we had in mind we would benefit greatly by augmenting that experience with expert professional guidance from the U.S. private sector. We have engaged such professionals, and together we have designed the Africa Growth Fund and mapped a strategy for obtaining commitments from major corporate investors, including industrial, financial, and service organizations. We are in the process of implementing that strategy, and already have several commitments.

We are sufficiently confident of reaching our required funding level that OPIC has made its commitment of $20 million in guaranties (under Section 234(b) of the Foreign Assistance Act) and, working with the Fund's professional, private management, we are preparing the detailed implementation and operations program. If all goes well we expect the Fund will be organized to accept investment applications in September or October.

One of the purposes of the Fund is to demonstrate to American business executives that sub-Saharan Africa offers excellent opportunities for sound investments, particularly in joint venture association with African business. Therefore, the Fund will approach a wide variety of U.S. firms, including both larger, more experienced international companies as well as the small and mid-sized American companies for whom an overseas investment is a major undertaking.

The Fund will work with OPIC, Ex-Im Bank, the World Bank, A.I.D. and the Departments of State and Commerce to target specific U.S. companies and banks so that the benefits of tapping the Fund's capital resources will become known directly to executives of those companies which are the most likely candidates for African investment.

In addition the Fund will maintain a continuous presence in Africa, permitting early identification of promising investment opportunities and effective participation in shaping such opportunities into business proposals acceptable for investment decisions by the Fund.

OPIC has also made development in Africa a high priority for other corporate programs. In January 1988, OPIC sponsored a successful investment mission to Nigeria for U.S. business executives to investigate investment and business opportunities. A similar mission to Botswana, Lesotho, and Swaziland is now under active consideration for early next year.

SENATOR INOUYE: OPIC makes direct loans to small U.S. investors for projects in developing countries to promote social and economic growth. As of March 31, 1988, OPIC had 75 active loans with an outstanding balance of approximately $48.0 million. Thirty of the 75 OPIC loans, or 40 percent, were in delinquent status. Either they were in arrears 90 days or more in payment of principal, interest, or both. (GAO/NSIAD-88-161).

To what do you attribute the poor performance of OPIC's loan portfolio?

MR. NALEN: As noted in our previous testimony, the number of delinquent loans (as cited by the GAO) is not as meaningful an indicator of overall portfolio performance as the dollar amount of such delinquencies. Our calculations indicate that, in dollar terms, only approximately 10 percent of the DIF principal outstanding as of March 31, 1988 was delinquent; such a percentage is quite acceptable compared to other lending programs, especially those dealing with more risky third world markets.

SENATOR INOUYE: What steps are you taking to clear your books of delinquent loans and shore up the remaining loans in the OPIC portfolio?

MR. NALEN: As mentioned above and in our previous testimony, OPIC has taken a number of steps, as recommended by Peat Marwick Main & Co., to improve our credit analysis, credit approval, loan monitoring, credit review, and workout procedures. The GAO concurred that the actions taken by OPIC should improve the loan program management process and correct any specific weaknesses noted.

SENATOR INOUYE: How would you characterize the strength of the remaining 60 percent of the OPIC loan portfolio not in delinquent status?

MR. NALEN: The remaining loans in our portfolio are current on their repayment obligations, and OPIC is earning interest and fees on them. (Such amounts totalled $4 million in FY 1987). As part of our already established loan management procedures, we will, of course, continue to monitor these loans closely. Because we operate in high risk, developing countries, we cannot predict the ultimate outcome of all these loans. However, through our monitoring and workout efforts, we strive to detect problems promptly, implement corrections, and, if necessary, arrange for restructuring or orderly liquidation.

SENATOR INOUYE: I understand that OPIC plans a conference in Hawaii covering all aspects of renewable forms of energy. The program will include sessions on financial, social and institutional issues related to commercialization of these technologies. What does OPIC see as its role in promoting renewable energy technologies and their export potential? What is the percentage of OPIC resources dedicated to renewable energy technologies? How competitive is American industry in marketing renewable energy technologies overseas and where could improvements be made?

MR. NALEN: OPIC has agreed to co-sponsor the International Renewable Energy Conference (IREC), to be held in Honolulu September 18-24, 1988. Other co-sponsors include the Department of Energy and the East-West Center.

As an active member of the interagency Committee on Renewable Energy Commerce and Trade (CORECT), created by the Renewable Energy Industry Development Act of 1983, OPIC participates in numerous activities designed to maximize the use of U.S. government programs by U.S. renewable energy companies that are seeking to participate in overseas markets. In addition to the semi-annual meetings of the CORECT and its subcommittees, OPIC has addressed industry association conferences concerning investment opportunities in such sectors as photovoltaics, wind energy, solar thermal electric power and cogeneration. In conjunction with the Department of Energy, in June 1988 OPIC's Vice President for Development, Gerald T. West, co-chaired a project definitional mission of U.S. geothermal energy companies to Kenya.

Thus far, OPIC has provided insurance and financing to two major geothermal energy development projects undertaken by U.S. firms and has financed a small woodstove manufacturing project. OPIC's feasibility study program, discontinued in 1986, was used by several solar energy firms to investigate specific investment opportunities.

However, many small U.S. renewable energy companies have not been able to qualify for financing for overseas investments because they are under-capitalized or have not operated a commercially successful business (as opposed to a research company). To remedy this situation, OPIC is managing, on behalf of the CORECT, an effort to establish an intermediary financing institution, that will assist such companies to access equity investment and other financial services for projects in developing countries.

SENATOR INOUYE: How can OPIC continue to lend to indebted LDC's when regular commercial banks are withdrawing from these markets and writing-off bad loans?

MR. NALEN: Commercial banks encountered difficulties in the first part of this decade because while investing oil revenues from the oil-exporting countries they dramatically increased the volume of "sovereign" loans to governments of developing nations. In many cases, these loans were not utilized to fund productive projects enabling the countries to generate the resources necessary to repay the loans. In addition, the world economy entered a downturn through much of the 1980's, which resulted in a decrease in the price of many commodities produced by these developing countries. Thus, many of these nations found themselves unable to repay their debts to the commercial banks using financial resources generated by traditional means.

However, OPIC does not engage in sovereign lending, but lends only on a project basis. Thus, OPIC only makes loans to specific private sector projects located in developing countries. Repayment of these loans is generally not affected by debt reschedulings. Moreover, OPIC takes considerable care to ensure that each project is commercially viable and will be able to repay its debt. In other words, OPIC loans are structured in such a way that repayment can be expected despite the fact that rescheduling of governmental debt may occur.

Commercial banks could do the same thing, and in fact, some banks, in relatively few instances, are engaged in making loans to projects in selected developing countries. However, in general, the banks are seeking to curtail lending in Third World nations, chiefly because of the perception of higher risk on the part of their shareholders and bank regulators. OPIC, on the other hand, has a statutory obligation to engage in this kind of financing: it is one of the rationales underlying the Corporation's existence as a development agency.

SENATOR INOUYE: How do you reconcile OPIC's principal objective of promoting U.S. exports to the LDCs, with the goal of this Government and the IMF which is to assist developing countries in reducing their external debt, often by limiting or curtailing foreign imports?

MR. NALEN: OPIC's primary objective by statute is to promote and facilitate the development process in friendly developing nations. By law, the agency is also encouraged to seek to promote American exports in connection with these developmental projects. These objectives are not conflicting. Often the exports from the United States to the developing countries involve equipment and material used to initiate and maintain a productive investment which creates exports for the country involved.

For example, Bolivia currently is experiencing balance of payments difficulties. In FY 1986, OPIC financed a project to mine gold and silver in that country. To initiate the project, the investor was obliged to purchase mining and other equipment not locally available. In addition, every year the project will import certain materials to keep the mine in operation. These imports from the United States will amount to more than $10 million during the first five years of operation. On the other hand, Bolivia can expect to export over $90 million worth of gold and silver during the same period of time. Even after taking into account such things as profit remittances and the cost of imports, Bolivia will realize a net foreign exchange benefit of approximately $75 million.

This example can be multiplied many times. Over the last three fiscal years, in fact, the projects assisted by OPIC are expected to yield the developing countries approximately $2.6 billion in additional foreign exchange earnings.

SENATOR INOUYE: Existing legislation directs the Overseas Private Investment Corporation (OPIC), to decline assistance to proposed investments if OPIC determines that they are likely to have significantly adverse impacts on U.S. employment. A recent GAO report found that some OPIC-assisted projects have direct negative impacts on U.S. trade and potentially negative impacts on U.S. employment. GAO reported that OPIC's methodology for computing the economic impact on the U.S. of the projects it assists obscures the direct effect of these projects. The result is an overly optimistic picture presented to Congress of the magnitude of economic benefits to the United States. (GAO/NSIAD-87-109, May, 1987).

Has OPIC modified its reports to Congress to clearly show the trade and employment effects of the assumptions and alternatives it uses when computing the benefits to the U.S. of the projects it assists?

MR. NALEN: OPIC has responded at length to the GAO report and its recommendations (see OPIC Response dated July 17, 1987, attached). As reflected in detail in OPIC's written response, the Corporation is firmly of the opinion that to adopt the GAO's reporting recommendations would result in serious misrepresentions to the Congress of the effect of OPIC's program on the U.S. economy.

OPIC's reporting to Congress is based on the methodology it applies in analyzing projects on a case-by-case basis. In reviewing OPIC's analytic procedures, Arthur Young concluded that "OPIC's methodology for analyzing the impact of its projects is, by and large, in accordance with accepted principles of impact analysis" (see attached, "A Review of the GAO Report Entitled 'Foreign Aid: Impact of Overseas Private Investment Corporation Activities on U.S. Employment,'" dated August, 1987, pg. 2). OPIC has provided to Congress a thorough explanation of the methodology it has consistently applied in calculating the U.S. trade and employment effects of the projects it assists (see attached Fiscal 1983 Development Report, page 19).

(CLERK's NOTE: The above referenced items are retained in the subcommittee files.)

SENATOR INOUYE: Has OPIC developed formal policies and a comprehensive system for its initial project screening and ongoing project monitoring functions, and has it improved its documentation system for project screening and monitoring?

MR. NALEN: OPIC's July 17, 1987 response addresses the question of development of formal screening and monitoring policies, procedures and documentation by OPIC (see pp. 14, 15, and 23). Additionally, however, it should be noted that as a result of the massive statutorily-required study conducted by OPIC and Arthur Young of the U.S. effects of its projects, the Corporation has decided to revise its already extensive monitoring system and to improve its project monitoring procedures. We expect to provide Congress with a description of this new program in the near future.

SENATOR INOUYE: I understand that the Ex-Im Bank has established procedures for examining both the general status of human rights in each country to receive exports which the Bank is considering supporting with a direct loan or financial guaranty and the effect of such exports on human rights in that country. (Ex-Im Bank Report to Congress on Export Credit Competition and at the Ex-Im Bank of the U.S., June 1987, 57) Does OPIC have similar procedures? If so, what are they? Does OPIC require, as does the Ex-Im Bank, that specific clearance on human rights issues be obtained from the State Department on every transaction?

MR. NALEN: Under Section 239(i) of the Foreign Assistance Act of 1961, as amended, OPIC may not assist projects in countries whose governments have been judged by the State Department to be engaged in a consistent pattern of gross violations of internationally recognized human rights. To comply with this requirement, OPIC has established procedures, similar to those established by the Ex-Im Bank, whereby OPIC submits a summary of each proposed insurance and finance project to the State Department's Bureau of Human Rights and Humanitarian Affairs for clearance. OPIC requires, as does the Ex-Im Bank, that specific clearance on human rights issues be obtained from the State Department on every transaction. OPIC has never assisted a project in the absence of State Department clearance.

SENATOR INOUYE: As you may be aware, the Congress and the Administration are reviewing what steps can be taken to reinvigorate the Philippine economy. One proposal now under active consideration is the so-called "Marshall Plan" which would involve the channeling of new investment into the country from both a host of bilateral and multilateral sources.

What role might OPIC play in helping to facilitate the "Marshall Plan" concept?

MR. NALEN: OPIC participated actively in the interagency discussions leading to the proposal mentioned above concerning a Philippines "Marshall Plan." Furthermore, in January 1988, the Corporation's Board of Directors authorized OPIC to exceed its normal ten percent of worldwide exposure limitation in the Philippines in order to permit OPIC to offer additional incentives for U.S. investment there. Normally, to diversify risk, OPIC will limit its exposure in any one country to ten percent of worldwide exposure. The Board permitted the Corporation to exceed that limitation in the Philippines, based not only on the stake the United States has in that strategically and economically critical nation, but on a careful review of the risks and on some restrictions adopted by the Board to ensure that OPIC's underwriting in the Philippines continues on a prudent, conservative basis.

Also, in 1987 OPIC provided insurance support to the First Philippine Capital Fund. This fund is designed to convert sovereign debt into local-enterprise equity investments.

OPIC is currently considering sponsoring an investment mission to the Philippines in the fall of this year. This mission will build on the outstanding success of the February 1987 mission which involved 21 firms. The 1987 mission, in turn, was preceded by a forum which OPIC conducted in September 1986 in Washington, D.C. attended by President Aquino and several cabinet ministers and over 500 members of the U.S. business community. In view of the fact that OPIC does business in over 100 nations, many of which desire investment missions (and OPIC's limited capacity imposed by personnel constraints enabling the Corporation only to conduct five to seven such missions in any given year), it is extraordinary for the Corporation to consider two missions to one country within so short a time period.

In the long term, OPIC is looking at new, innovative uses of its finance program to address the special developmental needs of the Philippines. A recent study identified the lack of small and medium-size businesses as an obstacle to economic growth in the Philippines. A targeted program promoting U.S. small business opportunities in joint ventures with Philippine sponsors could address this serious need and would be extremely helpful in generating income, employment and growth in the Philippines.

SENATOR INOUYE: In your FY 1987 Development Report you compare the operations of OPIC with that of Japan's Export Insurance Division (EID). You point out how Japan's political risk insurance program is unencumbered by non-business concerns and that unlike OPIC, EID is free to operate in any developing country, without the need to negotiate a bilateral agreement or obtain the host country's approval in order to issue insurance for specific investments. You note that EID is not restricted by considerations of host country economic development, environmental assessments, human rights, worker rights, Japanese industrial interests or other such concerns to which OPIC is statutorily obligated. You conclude by saying that "OPIC's political risk insurance program, once the model for its overseas counterparts, may no longer be the most comprehensive..." (OPIC FY 87 Development Report, 19-20) Are you suggesting that this country turn its back on considerations such as human rights, worker rights and the environment when it does business abroad?

MR. NALEN: The comparison of OPIC's insurance operations with those of Japan's Export Insurance Division in OPIC's 1987 Development Report is intended only to describe the differences between the two programs and the implications for U.S. overseas investors. OPIC is not seeking exemption from any of its statutory mandates.

In its current reauthorization, OPIC is seeking modest improvements in its operational flexibility in order to assist a greater number of U.S. investors. None of these improvements will have any effect on OPIC's policies with respect to developmental effects, U.S. effects, human rights, worker rights or the environment, all of which OPIC will continue to implement in a thorough and conscientious manner.

SENATOR INOUYE: By how much does the demand for OPIC loans exceed the available supply?

MR. NALEN: The aggregate number and amount of applications fluctuates widely. However, demand for financing has generally exceeded OPIC direct loan and investment guaranty availability. At the end of Fiscal 1987, after fully utilizing our direct loan and guaranty authority of $223 million to complete 30 projects, we had a backlog of 32 projects seeking financing of $300 million.

SENATOR INOUYE: What have you done to increase the awareness of American business of the services you offer?

MR. NALEN: OPIC offers special programs to provide U.S. companies access to information on specific investment opportunities and the business environment in developing nations. Although traditional marketing programs have been curtailed or eliminated because of budget restrictions, within its limited budget OPIC provides several special services aimed at helping companies, especially those with little or or no international investment experience.

For example, OPIC's Investment Missions Program is designed to introduce U.S. business executives to key business leaders, potential joint-venture partners and government officials of a developing country. Since 1981, OPIC has organized investment missions to more than 29 developing countries. Investment mission participants pay for their own travel and accommodations. Since June 1987, OPIC has organized successful missions to Guatemala, Nigeria, Bangladesh, Turkey, Northern Ireland and the Republic of Ireland.

OPIC also provides businesses seeking opportunities for investment in Third World countries a computer data system, known as the Opportunity Bank, that can match an investor's special interest with overseas opportunities. The network currently contains data on more than 2,500 projects in nearly 100 developing countries. "Matches" are provided for a small fee.

In addition, OPIC provides, for a nominal fee, easy "one-stop shopping" for basic data and country specific information needed by U.S. companies considering investment overseas. Materials include information on the economy, trade laws, business regulations, political consideration and investment incentives of developing countries and regions.

OPIC has also embarked on a long-term outreach program to make its services better and more widely known, especially by potential small business users outsider the major business centers. Under this program, OPIC personnel speak at conferences and seminars, call on potential clients, and provide informational materials for regional and industry newsletters. OPIC sponsors business seminars for exporters and investors in key U.S. cities in cooperation with other federal agencies that deal with foreign economic policy and programs. In September of 1986, OPIC organized and hosted a Washington, D.C. business forum for Philippine President Corazon Aquino and her key ministers. Attendance was in excess of 500 U.S. business executives. Recent "Outreach" activities have been held in Tampa, Hartford and Seattle.

SENATOR INOUYE: How successful have you been in recent years in expanding your client base?

MR. NALEN: OPIC's client base is expanding as we increase investment-encouragement activities and as developing countries adopt economic and policy reforms to attract new investment. In FY 1985-1987, OPIC insured and financed a record 446 projects, surpassing the number of OPIC-assisted projects in any prior three-year period. Significantly, this record was set while employee levels remained relatively constant.

SENATOR INOUYE: What business sectors would you consider to be under-represented in your loan portfolio?

MR. NALEN: OPIC seeks to support a wide variety of investment projects consistent with the diverse needs of the over 100 developing countries in which OPIC operates. Projects in agribusiness, services, manufacturing, minerals and energy are the primary industry sectors in which OPIC has been involved. Agribusiness, including food production, processing, and storage is a particularly important sector with capacity for further new investment to address growing host country needs.

SENATOR INOUYE: What is the status of your Panama portfolio in light of the current political situation in the country? How have your premiums been affected by the last five months of unrest?

MR. NALEN: Effective December 22, 1987, OPIC has suspended its programs in Panama as a result of Section 570 of the 1988 Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1988, as incorporated in Public Law 100 - 202. OPIC has approved no finance or insurance projects in Panama since that time.

SENATOR INOUYE: Do you currently have any insurance or finance programs outstanding in Syria? Has OPIC had any involvement in Syria over the last five years? If so, please describe the full extent of this involvement?

MR. NALEN: OPIC has not supported any finance projects in Syria, and none of our programs are currently operating there. Under our limited Contractors and Exporters Insurance Program, we have contracts currently outstanding on two small business export projects, both of which are nearing completion.

SENATOR INOUYE: In February it was revealed in the press that your agency had blocked a request from Mr. E. Bob Wallach, a friend of Attorney General Edwin Meese, to provide insurance on a $1 billion Iraqi Pipeline project.

Please share with this Subcommittee the contract review mechanisms which identify possibly inappropriate uses of OPIC resources?

MR. NALEN: The Iraqi pipeline case is an example of OPIC's strict adherence to its statutory mandates.

OPIC's participation in any project is subject to a number of requirements. The project must first meet OPIC's credit or insurability standards. For example, in order to operate on a prudent underwriting basis, OPIC's participation in some types of insurance projects is commonly conditioned on the availability of a satisfactory "salvage package" that would make OPIC whole or nearly so in the the event OPIC had to pay a claim. Similarly, OPIC finance projects must meet acceptable levels of credit risk based on a review of the project management's track record, financial resources, project commercial and financial viability, country stability, and collateral security adequacy. Projects are scrutinized at several levels and larger projects require approval by OPIC's Board of Directors. If in the course of evaluating the project proposal we learn facts that suggest ethical or legal improprieties, we do not proceed with the project.

An OPIC project must also be reviewed to make certain it will meet a number of policy criteria established by Congress and OPIC's Board of Directors. For example, the project must:

- provide host country developmental benefits;
- further U.S. foreign assistance goals; and
- not have a significant adverse effect on the U.S. economy or U.S. trade.

Every OPIC project must meet these basic eligibility criteria.

QUESTIONS SUBMITTED BY SENATOR KASTEN

SENATOR KASTEN: What caused the decrease in your administrative expenses in FY 1987? Does this decrease represent a trend, or is it just a "blip on the screen"?

MR. NALEN: The level of OPIC's administrative expenses budget is determined by the Office of Management and Budget based on the budget request submitted by OPIC. In recent years, notwithstanding its self-sustaining mandate and record net income, OPIC's administrative expenses have been reduced consistent with the general reduction in U.S. government programs and expenditures.

In the short term, OPIC has been able to do more with less because of aggressive management and careful program implementation. However, due to such budget constraints, the OPIC investment encouragement loan and special projects grant programs have been terminated. For FY 1988, we expect a slight increase in administrative expenses to cover modest program improvements, cost-of-living adjustments and required contributions to the Federal Employees Retirement System.

SENATOR KASTEN: Has OPIC modified its reports to Congress to clearly show the trade and employment effects of the assumptions and alternatives it uses when computing the benefits to the U.S. of projects it assists?

MR. NALEN: OPIC has responded at length to the GAO report and its recommendations (see OPIC Response dated July 17, 1987, attached). As reflected in detail in OPIC's written response, the Corporation is firmly of the opinion that to adopt the GAO's reporting recommendations would result in serious misrepresentions to the Congress of the effect of OPIC's program on the U.S. economy.

OPIC's reporting to Congress is based on the methodology it applies in analyzing projects on a case-by-case basis. In reviewing OPIC's analytic procedures, Arthur Young concluded that "OPIC's methodology for analyzing the impact of its projects is, by and large, in accordance with accepted principles of impact analysis" (see attached, "A Review of the GAO Report Entitled 'Foreign Aid: Impact of Overseas Private Investment Corporation Activities on U.S. Employment,'" dated August, 1987, pg. 2). OPIC has provided to Congress a thorough explanation of the methodology it has consistently applied in calculating the U.S. trade and employment effects of the projects it assists (see attached Fiscal 1983 Development Report, page 19).

(The Fiscal 1983 Development Report referred to above is retained in the subcommittee files.)

SENATOR KASTEN: Has OPIC developed formal policies and a comprehensive system for its initial project screening and ongoing project monitoring functions, and has it improved its documentation system for project screening and monitoring?

MR. NALEN: OPIC's July 17, 1987 response addresses the question of development of formal screening and monitoring policies, procedures and documentation by OPIC (see pp. 14, 15, and 23). Additionally, however, it should be noted that as a result of the massive statutorily-required study conducted by OPIC and Arthur Young of the U.S. effects of its projects, the Corporation has decided to revise its already extensive monitoring system and to improve its project monitoring procedures. We expect to provide Congress with a description of this new program in the near future.

SUBCOMMITTEE RECESS

Senator INOUYE. The subcommittee will now stand in recess until 10 a.m., Friday, June 10, at which time we will receive testimony from Ambassador Jonathan Moore, United States Coordinator for Refugee Affairs and Director of Bureau of Refugee Program, Department of State; the Honorable Ann Wrobleski, Assistant Secretary of State for the Bureau for International Narcotic Matters; and the Honorable L. Paul Bremer, III, Ambassador at Large for Common Terrorism, Department of State.

We will now stand in recess.

[Whereupon, at 11:45 a.m., Wednesday, June 8, the subcommittee was recessed, to reconvene at 10 a.m., Friday, June 10, 1988.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

FRIDAY, JUNE 10, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:08 a.m. in room S–128, the Capitol, Hon. Daniel K. Inouye (chairman) presiding.

Present: Senators Inouye, DeConcini, Lautenberg, Mikulski, Kasten, and Hatfield.

DEPARTMENT OF STATE

BUREAU FOR REFUGEE PROGRAMS

STATEMENT OF JONATHAN MOORE, DIRECTOR, BUREAU FOR REFUGEE PROGRAMS, DEPARTMENT OF STATE

ACCOMPANIED BY:

ROBERT L. FUNSETH, SENIOR DEPUTY ASSISTANT SECRETARY OF THE BUREAU FOR REFUGEE PROGRAMS

VICTOR TOMSETH, DIRECTOR OF OFFICE OF THAILAND AND BURMA AFFAIRS, EAST ASIA AND PACIFIC BUREAU

KENNETH BLEAKLEY, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ASSISTANCE, THE BUREAU FOR REFUGEE PROGRAMS

OPENING STATEMENT OF SENATOR INOUYE

Senator INOUYE. The subcommittee will please come to order.

This morning we continue our examination of the President's request for fiscal year 1989 funding of foreign assistance programs. Today our attention turns to migration and refugee affairs, international narcotic matters, and counter-terrorism, three areas of increasing concern both to this nation and the world.

It is the responsibility of this subcommittee to oversee the management and funding of government programs in these areas and to examine the impact of the operations on American foreign policy.

INTRODUCTION OF WITNESSES

We have with us this morning Ambassador Jonathan Moore, United States Coordinator for Refugee Affairs and Director of Refugee Programs of the Department of State; the Honorable Ann Wrobleski, Assistant Secretary of State for the Bureau of International Narcotic Matters; and the Honorable L. Paul Bremer III, Ambassador at Large for Counter-Terrorism at the Department of State.

On behalf of the subcommittee, I thank all of you for joining us this morning. We have received your prepared statements and, without objection, they will be made part of the record.

So we will begin with refugee affairs, Ambassador Moore.

Mr. MOORE. Mr. Chairman, with your permission I would propose to read an abridged version, a summary version of my prepared statement.

Senator INOUYE. Fine.

INTRODUCTION OF ASSOCIATES

Mr. MOORE. Mr. Chairman and Senators, I am pleased to be here today to present the Department of State's fiscal year 1989 appropriations request for migration and refugee assistance and to have the opportunity to express my appreciation for the attention and support you have given us in the past, particularly you, Senator Inouye.

Accompanying me is Mr. Robert L. Funseth, the Senior Deputy Assistant Secretary of the Bureau for Refugee Programs.

Also here with us is Victor Tomseth, who is Director of the Office of Thailand and Burma Affairs in the East Asia and Pacific Bureau, and Deputy Assistant Secretary for International Assistance in the Refugee Bureau, Kenneth Bleakley, who is right here.

I also, Mr. Chairman, would just like to take the opportunity to introduce Mr. Linas Kojelis, who is our brand new Deputy Assistant Secretary for Admissions in the Refugee Bureau and is accompanying us this morning.

BUDGET REQUEST

Mr. Chairman, the Department's fiscal year 1989 request for Migration and Refugee Assistance Programs is $340 million. This request is in line with the conclusions reached last November in the bipartisan budget summit agreement. It represents our best efforts to meet the most urgent needs of refugees throughout the world, our foreign policy objectives, and the requirement to help reduce the budget deficit.

REFUGEE ASSISTANCE

Refugee populations worldwide continue to grow and demand substantial resources. In addition to ongoing support this country provides to the more established refugee populations—Afghan and Indochinese refugees for instance—the situation in Central America, increased strife in Africa, particularly in Mozambique, Southern Sudan, Ethiopia and the conflict affecting Palestinian refugees in Lebanon and the occupied territories are generating increased demands on the international community.

The Department's fiscal year 1989 MRA request includes $197.1 million for refugee assistance. In keeping with our commitment to assist refugees primarily through our support to the multinational refugee organizations, most of these assistance funds will be used to provide U.S.

contributions to the United Nations High Commissioner for Refugees, the International Committee of the Red Cross, the United Nations Border Relief Operation, and the United Nations Relief and Works Agency for Palestine Refugees in the Near East.

CONTRIBUTIONS TO INTERNATIONAL PROGRAMS

Within this assistance request we estimate contributions in support of international programs in the four regions as follows: $28 million for East Asia, where our funds must cover care and maintenance and provide protection programs for the 160,000 refugees in the first asylum and the 300,000 displaced Cambodians along the Thai border as well as for antipiracy needs.

Since April 30, boat arrivals in Malaysia, Thailand, and Hong Kong have increased these refugee populations. Conditions at Site 2 in Thailand in some respects have improved over the last year. A legal market has been established, and the Thai are moving forward with the creation of a new, hopefully more professional and better disciplined force to provide external security.

In the meantime, protection problems arising from the actions of the existing Thai security force have actually increased recently as discipline has deteriorated with the prospect of the force's disbandment, and plans to relieve overcrowding by splitting Site 2 have stalled.

In addition, we are concerned that the Thai decision, which we argued against and would like to see reconsidered, to move recent Vietnamese boat arrivals to a new facility adjacent to Site 2 will exacerbate the difficulties of providing adequate protection to those housed on the Thai/Cambodian border. We are determined to persist in our efforts with the Thai to improve the overall situation there.

Sixty-four million dollars for Africa, which is plagued by refugee problems more serious and affecting more people than any other continent. New flows of refugees from Mozambique into Malawi, Zimbabwe, Swaziland, Tanzania, and Zambia and from Sudan into Ethiopia will continue to demand substantial international donor support of which we will provide, or try to provide, our fair share.

Eighty-nine million dollars for the Near East and South Asia, where we will have the opportunity to participate in the repatriation of up to 5 million Afghans during fiscal year 1989 while we continue to support the UNHCR program for Afghan refugees in Pakistan and which also includes the U.S. contribution to UNRWA restored to the fiscal year 1987 level of $67 million.

Finally, $15.8 million for the Western Hemisphere where, should peace efforts progress, we will provide repatriation support and continue assistance until the returnees attain self-sufficiency.

Resources on the admission side are being strained by the demands generated by our foreign policy successes, the results of which have led to increased emigration from the Soviet Union, resumption of movements from Cuba under a renewed Mariel Migration Agreement, an expansion of the Orderly Departure Program from Vietnam, including an increased flow of Amerasians and the possible movement of released reeducation camp prisoners.

REFUGEE ADMISSIONS

The Department's fiscal year 1989 request includes $115.4 million for refugee admissions. This request level will finance the same number of refugee admissions as in fiscal year 1988, 68,500, owing to the implementation of strict economy measures to reduce costs.

The preconsultations admissions level estimated for budget purposes is 68,500 refugees for fiscal year 1989. This estimate currently faces increasing rather than decreasing flows of eligible refugees.

As you know, the President, after consulting with the Congress, has just authorized an additional 15,000 admissions numbers to accommodate the growing numbers of Soviets and Eastern Europeans who need to be admitted to the United States, bringing our fiscal year 1988 worldwide admissions ceiling to 83,500.

We are not requesting supplemental appropriations to finance this increase but are looking to rely on existing resources and enforced service reductions and cost saving measures to cover the associated costs.

Mr. Chairman, the U.S. refugee program faces increasingly urgent challenges within fiscal year 1989 resources. Yet, we are determined to stretch the funds requested in this budget to best respond to the grave humanitarian needs of refugees worldwide.

I hope we can have your continued support in providing the resources needed as requested in this budget to carry out our common mission, and we welcome the opportunity to appear before you and to answer any questions you may have, sir.

Thank you.

[The statement follows:]

STATEMENT

of

JONATHAN MOORE

Director
Bureau for Refugee Programs
Department of State

Mr. Chairman, Senators: I am pleased to be here today to present the Department of State's FY 1989 appropriations request for Migration and Refugee Assistance and the opportunity to express my appreciation for the attention and support you have given us in the past. Accompanying me is Mr. Robert L. Funseth, the Senior Deputy Assistant Secretary of the Bureau for Refugee Programs.

Mr. Chairman, the Department's FY 1989 request for Migration and Refugee Assistance Programs is $340 million. This request is in line with the conclusions reached last November in the bipartisan budget summit agreement. It represents our best efforts to meet the most urgent needs of refugees throughout the world and furthers our foreign policy objectives.

The refugee program is an essential element of U.S. leadership in fostering humanitarian principles around the world. Through this program we assist nations in providing first asylum to over 12 million refugees; we assist several million civilian victims of conflict; and we bring to this country those refugees who are of greatest direct concern to us.

Refugee populations worldwide continue to grow and demand substantial resources. In addition to on-going support this country provides to the more established refugee populations --

Afghan and Indochinese refugees, for instance -- the situation in Central America, increased strife in Africa, particularly in Mozambique, Southern Sudan, and Ethiopia, and the conflict affecting Palestinian refugees in Lebanon and the Occupied Territories are generating increased demands on the international community.

Funds available for refugee purposes must first be devoted to life-saving aid for refugees in dire situations, then to the care and maintenance of the millions of refugees dependent on international assistance. Self-reliance and income-generating programs usually come after these needs have been addressed. For the so-called "long-stayers", however, these latter programs are vitally important. For them the endless subsistence programs do not suffice. Refugees need incentives and the tools with which to envision and create a future -- basic education and self-reliance programs so they can take charge of their lives by developing skills to create a productive existence in the camp and beyond. We also need to give greater attention to lasting solutions for refugees and to efforts to stem the flow of new refugees. Repatriation and local integration are two of the durable solutions supported with refugee assistance funds.

The Department's FY 1989 MRA request includes $197.1 million for refugee assistance. In keeping with our commitment to assist refugees primarily through our support to the multinational refugee organizations, most of these assistance funds will be used to provide U.S. contributions to the United Nations High Commissioner for Refugees, the International Committee of the Red Cross, the United Nations Border Relief Operation, and the United Nations Relief and Works Agency for Palestine Refugees in the Near East. Within this assistance request, we estimate contributions in support of international programs in the four regions as follows:

-- $28 million for East Asia, where our funds must cover care and maintenance and provide protection programs for the 160,000 refugees in first asylum and the 300,000 displaced Cambodians along the Thai border, as well as for anti-piracy needs. Since April 30, boat arrivals in Malaysia, Thailand, and Hong Kong have increased these refugee populations. Conditions at Site 2 in Thailand remain in desperate need of improvement, and the problems of protection have grown from being identified with Cambodians to one likely to face boat Vietnamese who are being relocated there. Despite our encouragement of the Government of Thailand to make specific improvements in refugee protection and security at Site 2, progress has stalled and we must persist in our efforts to achieve concrete reforms. The recent crisis of first asylum for Indochinese refugees will be met by programs which do not rely merely on refugee resettlement, but also by innovative policies and programs now under discussion in Southeast Asia and by the international community.

-- $64 million for Africa, which is plagued by refugee problems more serious and affecting more people than any other continent. New flows of refugees from Mozambique into Malawi, Zimbabwe, Swaziland, Tanzania, and Zambia and from Sudan into Ethiopia will continue to demand substantial international donor support -- of which we will provide our fair share.

-- $89 million for the Near East and South Asia, where we will have the opportunity to participate in the repatriation of up to 5 million Afghans during FY 1989 while we continue to support the UNHCR program for Afghan refugees in Pakistan.

-- And, $15.8 million for the Western Hemisphere where, should peace efforts progress, we will provide repatriation support and continue assistance until the returnees attain self-sufficiency.

I have tried -- in the briefest terms -- to explain why our full FY 1989 assistance request for each region is vital. We are, therefore, concerned that provisions outside the Administration's request, included in the MRA appropriation as it passed the House of Representatives, if left as they are, will require large cuts in our contributions to the programs I have just described. Particularly during this era of stringent budget resources, earmarking can have a dangerously negative and possibly discriminatory impact on our ability to maintain a balanced response to the humanitarian needs of refugees world-wide. While I understand fully the concerns behind various earmarking requests, and support the programs involved, I respectfully ask the committee, as I did last year, to consider the consequences of these actions for refugee programs as a whole.

Resources on the admissions side are being strained by the demands generated by our foreign policy successes -- the results of which have led to increased emigration from the Soviet Union, resumption of movements from Cuba under a renewed Mariel Migration Agreement, and expansion of the Orderly Departure Program from Vietnam including an increased flow of Amerasians and the possible movement of released reeducation camp prisoners.

The Department's FY 1989 request includes $115.4 million for refugee admissions. This request level will finance the same number of refugee admissions as in FY 1988 -- 68,500 -- owing to the implementation of strict economy measures to reduce costs.

The pre-consultations admissions level estimated for budget purposes is 68,500 refugees for FY 1989. This estimate currently faces increasing rather than decreasing flows of eligible refugees. As you know, the President -- after consulting with the Congress -- has just authorized an additional 15,000 admissions numbers to accommodate the growing numbers of Soviets and East Europeans who need to be admitted to the United States, bringing our FY 1988 worldwide admissions ceiling to 83,500. We are not requesting supplemental appropriations to finance this increase but are looking to rely on existing resources through enforced service reductions and cost saving measures to cover the associated costs.

Mr. Chairman, the U.S. refugee program faces increasingly urgent challenges within FY 1989 resources. Yet we are determined to stretch the funds requested in this budget to best respond to the grave humanitarian needs of refugees worldwide. I ask your continued support in providing the resources needed as requested in this budget to carry out our common mission.

I welcome the opportunity to answer any questions you may have. Thank you.

ETHIOPIAN SITUATION

Senator Inouye. Thank you very much, Mr. Ambassador.

Before proceeding, I should tell you that Senator Hatfield will be returning. He is primarily interested in Southeast Asia, so questions relating to Southeast Asia will be set aside so that the Senator will have an opportunity.

I would like to begin by asking you about the situation in Ethiopia. I am certain you realize that most of the publicity one finds in television relates to Africa and the plight of African people. This subcommittee, therefore, was very much concerned when we learned that Ethiopia ordered all expatriate relief workers out of the contested areas of the country and requested such organizations as the Red Cross to turn over their food and equipment to their relief groups.

Now, what is the situation?

Mr. Moore. The situation, Mr. Chairman, is very dire. We have been working on it, the United States and various entities of the international community, for many months. The original strategy was to try, in the face of a new drought in Ethiopia and more violence there, to avoid the massive flow of refugees into Sudan that occurred 3 years ago, by trying to be sure, through advance planning, funding and preparation, to provide food for these people within Ethiopia. The idea was to keep them there and to feed them there rather than to, in effect, acquiesce in an exodus to the Sudan, a country which is already heavily saturated with refugees who went there earlier and are still flowing there; by arranging to have the refugee relief provided, including food, on the other side of the border.

This strategy was adopted by everybody and seemed to be working for a while but ran into exactly the problem which you were talking about—which is essentially the war between two insurgent groups in Ethiopia and the Mengistu regime. That fighting has increasingly interrupted the flow and the delivery of food and relief assistance to the refugees, cutting them off, isolating them.

Indeed, fairly recently, successes by the resistance groups, military successes against the Ethiopian Government have caused the Ethiopian Government to cut off relief efforts in an attempt to isolate their resistance opponents even more.

There have been efforts by the United States bilaterally with the Ethiopian Government. There have been efforts with the UNHCR and the ICRC and diplomatic efforts through third countries including the Soviet Union. There have been representations made during the OAU summit in Addis Ababa in attempting to solve this problem.

All we can report, up to the moment, is the even worse news that the ICRC has been bounced by the Ethiopian Government from Ethiopia, which removes a very strong refugee assistance arm in that situation. We are going to continue to work on it, but we are now somewhat stuck.

Senator Inouye. Did the Red Cross turn over their food and equipment to the Ethiopians?

Mr. MOORE. There is an effort by the Red Cross to turn over their equipment to voluntary agencies which are still there. The UNHCR does have a foothold, does have permission from the Ethiopian Government to maintain a presence, but it is not very effective and it does not get into the areas where the refugees are really in trouble and need help.

Perez de Cuellar, the Secretary General of the United Nations, also has made a recent effort to change the policies of the Mengistu government, but we have a very impacted situation right there, which is another example, similar in certain respects, to the horrible example of Mozambique, Senator, where problems of a stagnated economy and drought combined with problems of protracted insurgencies and violence create awful refugee flows and awful refugee situations and suffering, including starvation.

MEDICAL CARE FOR SOVIET CITIZENS

Senator INOUYE. There are several Soviet citizens who are awaiting permission to leave, and these men and women are suffering from a variety of ailments that require immediate medical care, acute medical care.

Does your agency provide any assistance to those people who wish to receive medical care but indicate their desire to go to another country?

Mr. MOORE. These are Soviet citizens within the Soviet Union, Senator? I am not sure of the answer to that question, and I would ask my colleagues if they know the answer. If not, we can provide you with the information later on.

May we give you the answer to that question for the record, sir?

Senator INOUYE. I have been asked by some of the members of the committee to ask that question.

Are you involved in the emigration from the Soviet Union and the Eastern Block?

Mr. MOORE. Well, with the INS, Senator, the Bureau for Refugee Programs does play an important role in the processing of refugees from the Soviet Union and Eastern Europe, but not people who are coming as immigrants.

HEMISPHERIC MIGRATION PROJECT

Senator INOUYE. Are you intending to fully fund the hemispheric migration project?

Mr. MOORE. We care a lot about the hemispheric migration project.

Senator INOUYE. Well, the State Department endorsed it, did they not?

Mr. MOORE. The State Department has from the beginning supported the continuation of that project and the work of that particular university or research center to support the continuing programs for refugees.

Right now we have a situation where we are looking forward to receiving actual research proposals from the hemispheric migration project which then would look forward to receiving funding as was indicated in the Senate report of late last year, Mr. Chairman.

We still have not received several reports on previous money spent from earlier contracts with the hemispheric migration project, and we want to persist in getting that cleaned up. In fact, there have been conversations last week and this week about getting together and actually looking at specific research proposals to be proposed by the hemispheric migration project which could then be qualified for funding.

Senator INOUYE. Will you have the Refugee Bureau provide this committee with a memo on the progress being made in implementing this project?

Mr. MOORE. Yes, sir, and we understand that in the Senate report, that keeping you in touch with the progress is already a requirement.

[The information follows:]

United States Department of State

Washington, D.C. 20520

JUL 15 1988

Dear Mr. Chairman:

This is in reply to the Senate Committee on Appropriations report requesting the State Department to keep the Committee informed on the Department's views on its continued relationship with the Hemispheric Migration Project (HMP). It also responds to your subsequent inquiry regarding HMP funding at the June 10 hearing on migration and refugee assistance appropriations and to the questions for the record we received June 24.

The Bureau of Refugee Programs (RP) in 1982 provided Georgetown University (GU) $27,500 for a feasibility study on the need for migration research in the Americas. In 1983, RP contributed $1.2 million to the Intergovernmental Committee for Migration (ICM) to undertake with GU a two-year research project. ICM, a respected international agency with years of experience in Latin American migration, was engaged to administer the project, in order to avoid duplication and to strengthen mutual migration goals and capabilities in the region. After ICM ended its association with the project when the original contract ended in September 30, 1985, RP, at the urging of the Committee, provided $770,000 to GU in FY86 and $446,160 in FY87 to continue the work of the HMP.

The Department recognizes the value of HMP goals to increase the base of scientific knowledge on migration, establish a data base and links among hemispheric migration researchers, and disseminate information on hemispheric migration. At the same time, RP, in consultation with HMP staff, has sought to develop a program of HMP research consistent with refugee program needs. Authority for RP funding for HMP requires that it be "assistance to or on behalf of refugees who are outside the United States" and "contribute to the foreign policy interests of the United States." An RP staff member met with HMP officials recently to discuss current work in progress and possible future projects, in order to ensure that research contracted by HMP is relevant, policy-oriented and completed in a timely manner.

The timeliness of GU project completion has been an area of concern to the bureau. Under grant 1037-620069 of September 18, 1986, RP provided $770,000 for eight research projects to be completed by September 30, 1987, later amended to December 31, 1987. The HMP progress report and eight research project reports - one in final, seven in draft, four still untranslated from Spanish - were submitted to RP on April 26, 1988. HMP informed RP by letter on June 10, 1988 that "all the manuscripts...will be released by September 15." The final financial report, due March 31, 1988, has not yet been received.

Under grant 1037-720097 of 9/30/87, RP provided $446,160 for research and reports of findings to be completed and published by September 24, 1988. Interim progress and financial reports were due by February 29, 1988. RP received a progress report on June 10, 1988 which indicated the published reports should be available by March 31, 1989. No interim financial report has been received.

RP seed money in 1982 and start-up funds in 1983 were intended to help launch the HMP and to help it achieve the goals outlined in an earlier paragraph. From the beginning, however, RP has urged GU to seek other, including non-governmental, funding sources and to establish links with other public and private agencies whose activities coincide with the development, labor, and institution-building objectives of the HMP. For example, we have encouraged HMP contacts with the congressionally-mandated Commission for the Study of International Migration and Cooperative Economic Development to explore mutual areas of interest. In light of the uncertainty of refugee needs and future year funding levels, we believe that developing alternative funding sources is essential to the viability of the HMP, with which we seek a continuing long-term relationship.

We are carefully studying the fiscal year 1988 HMP proposal which Georgetown University submitted to us on July 8 and plan soon to discuss it in detail with university representatives. Consistent with the considerations discussed above and subject to the availability of funds, we intend to proceed with funding assistance this year. We look forward to continued contacts with the Committee on the GU project and to ensure that limited U.S. resources are efficiently allocated and U.S. refugee assistance goals wisely met.

Sincerely,

J. Edward Fox
Assistant Secretary
Legislative Affairs

ADDITIONAL 15,000 ADMISSIONS

Senator INOUYE. What provisions have been made for the increase in the Domestic Resettlement Program? I believe there are about 15,000 additional refugees the administration has requested be admitted.

Mr. MOORE. Yes, sir.

Senator INOUYE. Do we have any money for resettlement of these refugees?

Mr. MOORE. We do not yet have adequate funds, Mr. Chairman, to finance the full 15,000. These are the new, earlier, unanticipated flows.

Senator INOUYE. This is for fiscal year 1988?

Mr. MOORE. This is for fiscal year 1988, and this is above the original 68,500 in the presidential determination, increasing, as I mentioned in my statement, to a total ceiling, of 83,500.

We are still looking for that funding. We have identified $6,500,000 worth of cost saving measures and reduced service levels which would reduce the amount of money needed. We originally had estimated the amount of money, Senator, needed to fund the full 15,000, at $25 to $30 million.

With these cost savings and service reduction measures, we think that we have that figure reduced to somewhere under $20 million, maybe

$18.5 million, and these are estimates. We are still looking for adequate funding to cover the amount needed. We are not seeking a supplemental, as I mentioned. We must depend upon the reallocation of existing resources.

Still, the administration is pursuing a number of possibilities. It is not clear where such funding might come from at the present time. One of the possibilities is the President's emergency fund, the ERMA. There is $12.6 million left in the ERMA at the present time. Since the ERMA, Mr. Chairman, has been used in the past to finance admissions as well as emergency assistance needs, it is therefore a possible area for funding.

I must say, however, that this is a $50 million fund which has not been replenished for 2 years, fiscal year 1988, and is not intended to be replenished by the administration for fiscal year 1989.

The traditional or typical use, the principal reason that the ERMA was brought into existence, was to anticipate dire emergency needs for assistance.

REFUGEE EMERGENCY NEEDS

Senator INOUYE. Do you consider Malawi, Sudan and Mozambique to be in that category?

Mr. MOORE. Absolutely. Southern Africa and the Horn of Africa.

Senator INOUYE. If you are not going to replenish, how do you hope to care for them?

Mr. MOORE. There are between $150 million and $200 million worth of special appeals issued by the ICRC and the UNHCR, Senator, which are current this spring and this summer, to handle these dire emergencies to which you have just referred.

The only source of funds other than an initial $18 million, which is in our budget now, which can respond to this $150 to $200 million in appeals, is the ERMA, that $12.6 million.

So here we have a real example of the great tightness of funds to handle refugee needs which become competing refugee needs. In this case we have competition or tension in terms of very legitimate needs between an admissions requirement, which is to bring the new 15,000 Eastern European and Soviet refugees in on the one hand, and on the other hand to at least have some modicum of response from the United States to these special emergency appeals for these situations in Africa.

COMPETING REFUGEE NEEDS

If I can just take one more moment on this, Mr. Chairman, because it is an excellent illustration of the dilemma that we are in.

There is a danger that our very understandable preoccupation with admissions needs may, over a time when we have limited funds, crowd out assistance needs. We have admissions to offer the treasure of our citizenship to refugees.

We have admissions to support first asylum in places like Southeast Asia.

But admissions are very intimate for us because they take place in our own communities in our own country. And there is a consultation process which quantifies the admission ceilings every year. It is a very exact and intense process, whereas assistance needs tend to be more distant. And they represent not a positive experience, but a negative experience, and we are dealing with multilateral operations which tend to diffuse the whole political dynamic rather than doing it unilaterally.

Assistance needs tend to drift. We have the dilemma, therefore, of looking at funding people to be admitted to the United States, which involves how long they wait to come to the United States in some circumstances, if they are not funded right away versus, on the other hand, funding lifesaving situations where you are influencing whether people are getting enough to live and whether they have enough protection for their lives to go on. This is a very, very difficult problem.

Of the 12 million refugees in the world today, only 1 percent of those people will be resettled in any third country, including, but not limited to, the United States.

So this brings us to the problem that you have raised of ERMA. Do we use ERMA for lifesaving purposes, or do we use ERMA for the admission of these people, who we have been fighting for, to be able to freely emigrate from the Soviet Union? We are happy that they have gained freedom, but obtaining funds forces very, very difficult choices.

Senator INOUYE. You spoke of making up for the lack of funds by reducing services?

Mr. MOORE. Yes, sir.

Senator INOUYE. Can you provide us with a memo on what services will be reduced?

Mr. MOORE. Yes, sir. If I may, I will include in it the cost savings which have also gone into that $6.5 million figure that I used, reduced services and cost savings measures.

Senator INOUYE. I have many other questions, but I will now call upon Senator Hatfield.

Senator HATFIELD. Mr. Chairman, I understand——

Senator KASTEN. I have already quietly yielded. You go ahead.

DISCREPANCY IN ADMISSION NUMBERS

Senator HATFIELD. Mr. Chairman, I am very grateful for the opportunity to join you in this hearing on a subject that is a very important one. I have some questions I would like to submit for the record to which we will hopefully have expeditious answers.

Let me start out with one question concerning an issue which has cost us a great deal of funding. As you know, Ambassador Moore, the adminstration lowballed the domestic resettlement program in a fashion which lead to instances like that in California, which is threatening to no longer resettle refugees.

We have seen the impact of this phenomena upon the whole structure in the Appropriations Committees of the House and Senate. The House has put domestic resettlement money in the foreign assistance account, and the Senate must decide now how to fund the States without what I might call intermarrying the appropriations functions.

This is because of, as you know, the projections and estimates that have to be made by both the State Department and HHS, both to get the refugees here and to provide funding in support of those refugees.

So when we began to look at what happened, we had to use two different figures instead of having the same figure used by both of these Federal agencies. Of the 68 total projected admissions, HHS projected a 51,000 figure which is about $140 million under the 68,500 projected by the State Department.

Actually, both of the figures are wrong even in their differential because they do not include the 12,000 Amerasians who do not come under this ceiling. So the figure should have been about 80,500 in order to provide for the requirements. So the projections were off in different ways.

Now what do you propose to do to correct this problem? There is a tremendous budgetary impact, I need not tell you, but also it sends the wrong signals at a time when we voted in the Senate 2 to 1 to set a stable figure over a 3-year period on which our foreign allies and friends could depend.

Could you give me about a 3-minute answer to that question?

Mr. MOORE. Thank you; a minute for each of the three dimensions.

Let me at the outset say that we never forget for 1 day, for 1 hour, that 28,000 figure that you mentioned for Southeast Asia, for East Asia first asylum.

Senator HATFIELD. You choose to ignore it?

Mr. MOORE. Indeed, even though we are very regretful that we have not been able to make the full East Asia first asylum ceiling for fiscal year 1988 of 29,500, we are hopeful of bringing in 28,000, which is the figure that you mentioned.

The problem you have raised, which perplexes me more than any that I know in my job. I do not know why there is the original discrepancy in the President's budget between the HHS admissions figure for fiscal year 1989 and the State Department figure. I will talk about the State Department figure in relationship to your point about 68.5 versus 51 in a moment.

It is a discrepancy which should be reconciled. It is a subject which is under discussion within the administration.

I have been talking with HHS about it and with the OMB, and we are attempting within the administration to work to bring those figures together. We have not been successful yet, and I cannot predict how that is going to turn out. We are worried about it. We want to resolve it, and we are working hard to try to do that.

DOMESTIC RESETTLEMENT

The next point that you raised, that you alluded to, was the need for adequate support for domestic resettlement here in the United States in order to actually make the numbers that we determine are necessary for international foreign policy purposes and for raw humanitarian needs in foreign countries work.

In the recent past, the numbers of admissions into this country have been driven principally by international humanitarian and foreign policy considerations, not as much by domestic resettlement capacity.

The domestic resettlement capacity in terms of funding has fallen off somewhat, and the discrepancy you mentioned between the two figures in the President's budget is to some degree a reflection of this.

What I am saying is that obviously we need to be able to settle these people well in order to fulfill our humanitarian commitments to them in order for the experience to be a redemptive one in terms of our own communities and our own States. It has got to work on the American side in order for the relief that we apply on the international side to actually take place.

So we need more funds. I am not talking about the State Department account now. We need more funds on the domestic side in the HHS budget in order to make the whole admissions system work. As the HHS budget goes down and that problem is handled, one way that it is handled is by reducing the number of months that the Federal Government reimburses the States for their refugee resettlement expenses.

Then the States feel that they are not getting adequate support, and there is a danger of a counterforce building up against the international numbers in order to achieve some equilibrium with the domestic funding capacity to resettle them.

REFUGEE ADMISSIONS REQUIREMENTS

I am underscoring the problem that you raised, Senator. I do not have an answer for this problem in terms of the intermarrying, for instance.

Next with regard to the discrepancy in your minds between the 68,500 and the 83,500, this relates to the adequacy of the request for 68,500 admissions for fiscal year 1989, the same number as for fiscal year 1988.

If you project the 15,000 new numbers for fiscal year 1988 added on to the original 68,500, one cannot predict a leveling off, a decline of the new flows from Eastern Europe and the Soviet Union. Then there is the Amerasian problem which you mentioned and perhaps, we hope, a prospect of reeducation camp prisoners being released, a really fulsome lifting and expansion of the ODP program. If you look at the 23,500 figure which is projected in this budget for East Asia, and the need for first asylum, and you look at our efforts to bring people out of Thailand and the other SE Asian countries, you look at the needs for bringing in Cubans which come out of the resumption of the Mariel Agreement, we do not see, next year, a dropping off of our admissions requirement.

As I mentioned in my opening statement, sir, we see an increase. As to the figures in this budget, the 68,500 figure, is a figure which was put together during the budget process many months ago which reflects the best estimates we were able to make then and which reflect the realities on the budget limitations that we face.

We hope that in the consultations process as usual, we will address the merits, the substance of refugee admissions needs for fiscal year 1989 closer to the time of that fiscal year when we can make better predictions and then see where we come out.

If we have the highly justifiable, high priority increases above that 68,500 at that time, then we are going to have to see what funding we can find to fulfill those needs, and we will have to address that question then.

Senator HATFIELD. Mr. Chairman, we could pursum this for many, many hours, but I would like to just, if I could, summarize, and then leave for the record other detailed questions.

Mr. Chairman and Ambassador and colleagues, let me just delineate this problem.

First of all, you and I have been through this whole litany year after year on the matter of the Southeast Asian total extrapolated out of the total refugee program figure. We sta2T out with one figure and end up with another figure. I am not sure we have ever arrived at any stabilized figure.

Now this year, you come in and we go through this same dance, though in the meantime we have tried to be helpful to you. There is not a scarcity of refugees to meet a certain figure. There are plenty of them out there to meet any figure we set.

In light of that, you do not come in at 28,000. You are hoping to ultimately get 28,000, as I understand your testimony. So we are still in a fog about how many we are really going to count, given that we have a specific number at the Senate at least, and realizing that the House has a different attitude toward refugees.

So the committee that really carries the burden of the refugees is this committee, and we set that figure at 28,000.

If the problems were isolated to this figure, that would be one thing, but year after year when we challenged the agency about protection, fight with the agency, you say, "well, it is a budgetary matter, we do not have the money." We said, "how much?" We got a figure, and we appropriated it.

It seems to me that throughout this whole refugee issue we have had to keep the boot to the tail end of the agency all the time.

I just get so totally—I do not know what, just like I am dealing with clouds and confusion.

Now you say that you are working on this budget discrepancy.

Mr. Chairman, they come in with $140 million between two agencies: the State Department, the agency that provides the help in the settlement, and HHS. We do not know how it happened but here we have this great discrepancy between the two estimates.

Let me tell you. I am in closer contact, I feel, with the states than some of the people in your agency because the private volunteer organizations are saying they want to take them, they have the machinery, they have been provided the machinery. The States tell me that they have. My State tells me that they have.

But the problem is the Federal dollar that comes through the HHS to help the States in this resettlement. Congressman Obey over on the House side put the money that was deficient on that side in a Foreign Ops bill, but it belongs in the Labor-HHS bill.

Now we have people saying we have to add more money for education and HHS. We have to have more money for AIDS. That budget already has so much competition, I cannot imagine how we are going to survive in that realm of big league competition for this lowly group of refugees.

Everywhere we turn, it seems we put a thumb one place and it pops out someplace else. Now we are into a screwed up budgetary mess that the administration has created on these two agencies in trying to provide adequate funding.

God only knows. I do not like to sit here and berate you or the agency. I listen to your words, and I am convinced by your words and am persuaded of your sincerity, but it just seems like one thing after another has screwed up this agency's efforts to try to fill the Congress' requirements or instructions and to provide for these refugees.

I want to tell you, I have several years left at least on this term, and I am not giving up on this yet. As Jake Garn said yesterday in the committee, he has a certain fix on the space program. He said you are going to hear me year in and year out, month in and month out, and you are all going to be bored.

Well, maybe I am going to bore people on another front, the refugee front.

I want to say the chairman here and my colleague from Maryland and my colleague from Kansas and other members, and these terrific staff people have demonstrated time after time that it is just not one radical from Oregon who has this concern. Everyone sitting at this table does.

Give us an instruction or a recommendation or a suggestion as to how we can be helpful to unscrew the mess. All of it ends up pointing a finger back to Thailand.

Let me tell you, I got in touch with a foreign minister out there on a very regular basis and the ambassador here. They do not like some of this finger pointing about the pushbacks and these other things that are going on over there, and I do not blame them.

But on the otherähand, I am sure we are going to have to improve our diplomatic relationships there in order to keep the lectures from occurring because of, again, the screw-up on refugees.

We are not just talking about a humanitarian question. We are talking about complicated diplomatic relations out there in Southeast Asia where we need them reaffirmed and strong rather than letting them be hassled by the refugee issue.

Well, you have heard it before. Thank you, Mr. Chairman.

Senator INOUYE. Thank you.

Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

I had some questions about Southeast Asia, but they have been most eloquently postulated by my colleague from Oregon.

SOUTHEAST ASIA REFUGEES

Just to add an anecdotal story on the Southeast Asian situation, we are not just talking about numbers. We are talking about people. I received some extraordinary news today that I would like to share with the committee.

Almost 10 years ago I was one of a group of Congresswomen who went to Southeast Asia right about the time of the Killing Fields, when people were emerging from Cambodia and going into the camps of Sikayo. The Congresswomen went to see how refugee assistance was working.

We came back and worked with our first lady, Rosalyn Carter, on a bipartisan basis on refugee assistance. That situation was so horrible that I had to make it far more personal to make it real. I worked to bring out from the camps a little girl I met in the Catholic Relief tent of unaccompanied children. I worked to bring her to this country. It took us 18 months, but because we had the numbers we could bring her here.

She arrived in the United States at the age of 11 having never gone to school because she worked in one of those Pol Pot slave children's labor camps. The first school she ever walked into was in Prince George's County.

I helped find her a home working with our Associated Catholic Charities in Baltimore funded through the Refugee Assistance Program with some help, I might add, from Mr. Lionel Rosenblatt, whom I met in the camps and who put me in touch with the Cambodian Heritage Organization.

This little girl went into a foster home of Cambodian parents because though she was going to have an American home, we wanted to make sure that she kept her identity.

She was graduated from Prince George's County school last year, high school. She will get her cosmetology certificate in about a week. Today she called me and said, "Auntie, I am engaged." I asked who this young man was, and I of course huddled with her mother as a doting aunt would do and found out that he, too, is a Cambodian refugee in his late 20's. I said, will he be able to support Kim? She said, oh, yes, he is a mechanic and has his own garage.

That is what America is all about, isn't it? We put a few bucks out. We had the right numbers to bring Kim in. I had the right infrastructure in the voluntary agencies to work with. When she arrived, I had a public school system that had a program called English as a Second Language. We had funds that went into a foster care program that supported her from the time she was 11 until the time she was 16, at which time she was adopted because then she was no longer an unaccompanied child and we could do that.

She was graduated from our public school system. She has taken advantage of a special training program and now is able to earn not only her own living but intends to have her own small business. She is marrying another Cambodian refugee who, again with modest help from us, is a contributor in America providing the kinds of services and businesses we need.

That is what this program is all about. That is what we are sitting here fighting for. That is what we are trying to do. It is 28,000 Kims that we can let in in a year.

So I just wanted the committee to know these programs do work. I have a glisten in my eyes today, but that is what it is all about, and I thank the Senator from Oregon for fighting so hard, as well as the chairman.

So that is what we are all about in Southeast Asia.

Senator INOUYE. When is the wedding?

Senator MIKULSKI. I would say in about 6 months, Mr. Chairman. I will not be giving away the bride, but I will be there.

But there is much to be done, and I just wanted to share that story about Southeast Asia.

Senator Hatfield. Would the Senator yield for one moment?

Senator MIKULSKI. Yes.

Senator HATFIELD. I want to thank the Senator for her very elegant comments. I know her heart and mine are united on this subject.

Also may I correct the record and make an apology to my good friend from Wisconsin. I was only a C-plus student in geography.

POLISH REFUGEES

Senator MIKULSKI. Mr. Moore, I know there are many competing interests and people wanting to come into this country, but another area that I have interest in and I know that has been brought to the President's attention is the issue of the Polish people that are in Italy and have been processed and are ready to come to this country if we could move on it.

As I understand it, however, with the good news of the Soviet and Eastern Bloc countries letting more out, we are kind of reaching the ceiling on what we could be doing in this area.

I understand that Mr. Aloysius Mazewski of the Polish American Congress has written to the President saying that Poles who fled marshal law and who were in Italy along with Soviet Jews and Armenians—who we are delighted to say were able to leave in an ever-increasing number—should not be competing with each other in order to come to this country.

Mr. Mazewski represented to the President in March that we should establish in separate categories the Soviet Jews and Armenians and the 10,000 Eastern Europeans trying to come in. He brought to the President's attention that there were 12,000 Polish Nationalists who escaped to Italy and who are seeking asylum

Are you aware of this letter?

Mr. MOORE. Yes.

Senator MIKULSKI. Have you taken action on it?

Mr. MOORE. I have not taken action on separate categories as of now. I am aware that the letter is in.

I should say that I am very sympathetic with the problem which the letter raises.

Let me just say one word about that and then one word about the proposition which the letter makes. There was a slowdown of the processing of certain East European populations out of Europe to the United States as we were sorting out these new flows from the Soviet Union and as we were seeking the authority of the President to raise the ceiling by 15,000 admission numbers.

That was largely caught up with, so that the populations which were being processed prior to the new 15,000, including Poles in Italy, is now about at that original ceiling which was contemplated for this fiscal year, and there is relief in the new 15,000 figure for more East Europeans along with Soviet Armenians and Soviet Jews.

So I think we have already provided some relief to the phenomenon that you have mentioned, and because we have these new numbers there will be more relief provided. The final number of Eastern Europeans will be maybe 1,000 to 2,000 higher than what it was originally estimated to be at the beginning of this fiscal year.

Now with regard to the specific suggestion, if we break down all refugee groups into individual ceilings, the flexibility of responding to unpredictable flows and contingencies is severely reduced for us. The competition which is mentioned, or at least implicitly covered, in the letter, Senator Mikulski, still goes on because just dividing the numbers up into their own individual categories does not reduce the competition for the ceiling numbers and for the funds which have got to be there.

As I have already pointed out, if we do not get the funds for the 15,000, those 15,000 numbers are not going to flow because they are ceilings. It is only an authorization to bring in those people if you can find the money. It is illegal to spend money that you do not have.

So we are going to continue to work on the problem. Other people have raised this, including Chairman Rodino. I have been to Italy and talked with the Italian government about the Polish problem, and I have talked with a lot of the Poles in the camps there because we are taking this issue very seriously.

How exactly to work it out in terms of a prescription needs some care because we could actually get into a worse situation than we are already in now. Thank you.

Senator MIKULSKI. Well, Mr. Chairman, the only point I wanted to make about the Poles and speaking in terms of the Polish community, we rejoice for the Soviet Jews and the Soviet Armenians who could get out. Anyone who can get out of the Soviet Union has the support of the Polish community.

However, the number in Italy is a fixed number. It is 12,000, and we know who they are. Now that marshal law has been lifted, there will not be any more, whereas with the Soviet Jews and Soviet Armenians, as you know that number lurches around depending upon the whims of the Soviet Union. Our concern is that the Poles will be displaced perhaps in terms of the numerical quota, depending on the good news, the episodic, uneven, good news that comes out of the Soviet Union.

Am I right that as emigres come out of the Soviet Union that the Poles are left standing in line, or do I misunderstand the situation?

Mr. MOORE. They are not displaced. In order to maintain flexibility and run a very complex processing system without knowing exactly what the numbers are going to be or what the funding is going to be, we have to slow down groups and then speed up groups.

As I said, before we knew we were going to get the 15,000 projecting out the ceilings that we already had which we could not violate for the fiscal year, we had to control those flows of Eastern Europeans and Soviet emigres out of Western Europe.

But I think that has largely been relieved, Senator, and there is no intention to displace them. We recognize even within a combined ceiling for Eastern Europe and the Soviet Union that these populations should not be displaced by other populations.

So we are giving that a lot of priority, and we are going to continue to do so.

Senator MIKULSKI. Thank you.

Mr. Chairman, thank you.

Senator INOUYE. Thank you.

Senator KASTEN.

PROTECTION OF SOUTHEAST ASIAN REFUGEES

Senator KASTEN. Mr. Chairman, thank you.

This is going to sound like a broken record over on this side of the table, but I do not think, Mr. Chairman, that there is one program that is under our jurisdiction that is becoming more of a frustration and more troublesome. It is not just here.

ABC's Nightline the other night, Wednesday, devoted its whole program to the continuing, increasingly desperate conditions that refugees fleeing Vietnam, Laos, and Cambodia find themselves in.

On Wednesday afternoon I was visited in my office by representatives of the Indochina Resource Action Center, an individual that is now living in Sheboygan, WI, but was here as part of this overall, and I assume some of them came in your office, I hope, and someone from your office met with them as they were meeting here.

There is a constant set of problems, of issues particularly in Thailand. Last year or in February, there were reports again documenting the mistreatment of Vietnamese refugees who were trying to find asylum. Once again, where were the so-called protection agents that are paid for with U.S. taxpayer dollars? They were in Bangkok. It took them days to get to the scene of the problem.

Mr. Chairman, you and I, based on Senator Hatfield's speech on February 23, called on the Secretary of State to do something concrete about the matter of protection. We still have gotten almost no response.

One other point, actually two other points, and then I want to go to some questions. But at the time when the President seems to have succeeded in getting Soviet authorities to be more lenient with the release of Soviet Jews, the Refugee Bureau is requesting a cut in the program which funds refugees going to Israel from $25 million to $10 million. That is just the opposite of the whole policy that we are seeing in terms of Soviet emigration of Jews.

Now that is not the only kind of dilemma here. Senator Hatfield brought up the fact that on the one hand you are saying that 68,500 people are going to be coming. Then the other half of the program decides to fund, what is it, 51,000 admissions. So we have 68,500 coming here, and we have 51,000 coming here, and you just finished a discussion suggesting that you are going to get 15,000 more to 83,500. The things just do not fit.

Let me begin by going back to the room next door a year ago, March 1987. At that point, I asked you about what had happened with a number of refugees. I said what is going on? I have the newspaper reports of people being pushed back.

Your response was, well, we are not sure what happened. We do not know what has happened. I do not want to pass any judgments. We are not sure what happened.

Well, now we are sure what happened. I want to ask you what happened. I now believe it has been proven through photographs and eyewitnesses that the 31 individuals who were referred to a year ago were slaughtered and were placed in a mass grave.

Is that correct?

Mr. MOORE. Well, without quibbling over the number, it was an atrocity, and it was horrible.

Senator KASTEN. So I am correct but you might disagree with the number?

Mr. MOORE. Yes. I do not know the number. I do not know anyone who knows the number.

Senator KASTEN. How long did it take for people to go to the site, to go to the area? We have 10 people there. I am told it is a 40-hour drive in a car from Bangkok to Trat, that area.

How long did it take? How many hours, days, weeks did it take for us to get even 1 of our 10 people who are supposed to be in charge of these issues there?

Mr. MOORE. Could I comment on the Nam Pun Hmong question first?

Senator KASTEN. Just answer my questions in terms of hours and days, and then comment.

Mr. MOORE. The issue of how fast it took someone to get out there was covered by Ambassador Brown in testimony before the House when he came back from Thailand in order to offer testimony on that point.

If I can go through his recitation, I will do that, Senator Kasten.

Senator KASTEN. Well, let me do it. I can just save you the time. On January 27 this whole policy began, and I am told that it was not until February 9.

Every single time any of these things happen, it is a 4-hour car drive. It is from here to whatever. Why is that? You have 10 people there. They are supposed to be dealing with these problems. They are supposed to be dealing with the refugees and going out to the refugees.

Now, I do not know if this is somebody's first—what are they doing except this? Why are they staying in Bangkok when these things are going on?

Mr. MOORE. Well, the protection unit is a unit of 3 to 4 people, not 10 people, but I do not want to argue with that because the Embassy has resources to send people out in situations like this, that they are not just restricted to the protection unit.

This was a subject that you and I discussed, as you pointed out, last year with regard to the Nam Pun Hmong——

Senator KASTEN. Why do all the problems seem to be the same?

FIRST ASYLUM IN THAILAND

Mr. MOORE. Let me try to explain it. First, with regard to the Nam Pun Hmong, in that area of Laos and Thailand there is a war going on within Laos. There is massive corruption and smuggling of refugees and other things going on across that border. There are four or five different factions and authorities and military entities which vie for control of the area.

There is a desire on the part of the Thai Government to limit this kind of influx from Laos into Thailand, and for reasons that relate to the magnet effect in providing the refugees with adequate assistance when they get into Thailand, the Thais do not want to give the kind of assistance and the kind of welcoming of these refugees across the border that we would like.

That is also a remote and a wild area. We do not have any kind of formal or official protection mandate, the U.S. Embassy, in this area. That is the responsibility of the Thai and the international community—the UNHCR or the ICRC up at site 2. Our people have got to cover a whole lot of border and a whole lot of camps, and they have to rely on spot checking.

They are basically catalysts. They are monitors. They offer support for solutions. They push. They try to get together coalitions of people in the Thai Government and people in the voluntary agencies and with the UNHCR to get to these people. It is a horrible situation.

If we had the power to control or influence that whole number of problems that I indicated, Senator, these horrible things that are happening to these people out there would be able to be alleviated. But we do not have control over them.

Senator KASTEN. The fact that we do not have control over what is happening in that area, all of us know that.

Is your answer to my question why the foreign service officers or the so-called police officers or the foreign service direct hires, and if you want to quibble with whether the number 10 is right, but the answer is that there is trouble in the region? Is that why they do not take the 4-hour drive when there is an emergency situation?

My understanding is that it has been proven that the presence, just the presence of the American observers has in effect had an effect of calming down at least some of these atrocities. It has forced people to deal with them, and it has clearly forced public attention on them. People should be there.

EMBASSY ROLE IN PROTECTION

Mr. MOORE. Yes, they should be there. They play a very valuable catalytic and monitoring and attention-gathering role, and they work the problem as best they can.

With regard to the Trat issue, our record that Ambassador Brown has given us, we do not control these things in Washington. The Embassy controls them. We try to provide personnel. We try to influence policy. We try to keep in touch. We try to give instructions from Washington which have to be cleared with a number of bureaus and other places in the State Department, but when an emergency hits it is the Embassy that is responsible for moving fast.

We therefore have to rely on them and their own best judgment, and we have to rely on their testimony about what they did. We were told by Ambassador Brown that an embassy team was out there on February 5.

Now, as far as I am concerned, Senator, without having been in charge out there and without having had to deal with the actual contingencies, I think they were late in getting out there, and I wish we had gotten out there faster. When we did get out, a tremendous amount of lifesaving work was done in east Thailand in Trat Province, on the islands. A coalition of Americans, people from the Embassy, people from the JVA, protection officers, other people and the voluntary agencies and the UNHCR were working with the Thai Government to really provide, as I say, lifesaving support for those people. A great job was done.

I wish it had happened earlier. I wish that the push-offs had never occurred at all. We do the best we can, and that is not as good as we would like to do all of the time.

I am grateful for your being troubled and for your being frustrated, your words about this, because that reflects my own feeling of trouble and frustration, and that reflects that you support these policies and these aspirations which we have to deal with in these humanitarian crises.

Senator KASTEN. You are incorrect, and if the ambassador or someone else were sitting in your place, we would be asking the same questions. You at this moment have to be in charge of this program, and you also are the representative of the State Department who is before this subcommittee. That is why the questions are clearly being addressed to you.

REFUGEE ADMISSIONS IN FISCAL YEAR 1988

How many refugees are going to come in this year? Is the 83,500, 68,500 plus 15,000? Is it 68,500, or is it 51,000? Just give the subcommittee enough so that we can work then from—I understand that some people believe these are floors, and other people believe they are ceilings. We have all these different things bubbling around here. As Mark was saying, it is like pushing a balloon.

Now, what is the number going to be?

Mr. MOORE. We can project through next September 30 with a lot of variables in between now and then and the major variable being do we have the money for the additional 15,000?

But if we do have the money——

Senator KASTEN. 15,000 over 68,500?

Mr. MOORE. Yes, sir. The 15,000 that are now authorized by this presidentially authorized emergency ceiling for new arrivals from East Europe and the Soviet Union that were not anticipated, were not predicted at the time when the 68,500 presidential determination was made last September.

Now, all this is speculation at this point. It is an educated one. We care about the answer to your question. We work on it all the time.

Senator KASTEN. Your goal is to reach 83,500?

Mr. MOORE. Yes, except that we already know that in certain respects we will not be able to reach that goal. We think that it may be in the area of 79,000 or 80,000. It could go higher, or it could go lower depending upon what actually happens——

Senator KASTEN. You are going to pay for the 79,000 or 80,000? How?

Mr. MOORE. Well, above the 68,500, which was——

Senator KASTEN. You are going to take those funds from existing funds?

Mr. MOORE. Which was funding that this subcommittee and then the full committee and the Senate and the Congress provided in the continuing resolution of last December. Otherwise, we would have been back to that 55,000 level, the equivalent of the 51,000 you mentioned for last year.

It is frustrating to try to make up these increased numbers as we go along. We are in the same situation again this year that we were in last year.

Now, we do not know, as I tried to say earlier, Senator, where the money for that portion of the 79,000 or 80,000 attributable to the 15,000 new flows is going to come from beyond the $6,500,000 in reduced costs which I mentioned earlier. We are still looking at this. It could have come out of ERMA. We will do our best to find it.

If we do not find it, then those new numbers which are authorized in the presidential ceiling are not going to be able to come in or whatever portion of them is not funded.

DISCREPANCY IN REFUGEE NUMBERS

Senator KASTEN. Why did one half of this group ask for 51,000 and the other half say that it was going to be 68,500? Why was that error made?

Mr. MOORE. I do not know, Senator, and I have looked into it.

Senator KASTEN. There is no coordinator that gets together?

Mr. MOORE. There is a coordinator, myself, who in the statute, which sets up the job of the coordinator, is obliged to try to develop budgets that service in various ways the refugee program. There is actually no authority in the statute which allows the coordinator to do that. It is more a matter of invitation for him to try.

This, in fact, is very difficult to accomplish, particularly in times when there is an executive legislative bipartisan budget summit agreement which keeps the budget down. It is basically OMB's responsibility. That is why I said earlier that we are now, and have been for some time, working with HHS and trying to work with OMB to reconcile that discrepancy. I cannot explain why it exists, and I am sorry that I cannot.

USE OF ERMA FOR REFUGEE ADMISSIONS

Senator KASTEN. If the money were to come out of ERMA, who makes that decision? Do you decide that?

Mr. MOORE. The President of the United States makes a formal determination that the conditions of unexpected urgency which are required under the statute do in fact exist.

Senator KASTEN. So it is a stretch to call this an unexpected emergency at best?

Mr. MOORE. Which?

Senator KASTEN. To fund the difference between 68,500 and 83,500.

Mr. MOORE. To fund the 15,000? That would be a legal determination. The ERMA has been used previously for admissions purposes, and I would not be able to make the call. It is a stretch in terms of competing priorities of lifesaving in Africa versus bringing in emigrants from the Soviet Union, but it could be very proper and legal under the statute, sir.

REFUGEES TO ISRAEL

Senator KASTEN. I have a number of other questions I will submit for the record, but I just want to ask one final question which I refer to in my statement.

In terms of trying to get at all these different inconsistencies, why are you recommending a 60-percent reduction in the program which supports Soviet and Eastern European refugees seeking resettlement in Israel at a time when one of the centerpieces of the last couple of weeks and months in our relations with the Soviet Union have been to encourage further emigration of Soviet Jews?

Mr. MOORE. That is a very good question, Senator, another question which reveals the torment of this job and of attempting to meet all of the competing refugee needs, when admissions and assistance are under an executive legislative bipartisan budget summit agreement which restricts funding.

This is a very good program, and it is a program which we have supported. We have given $300 million to it since 1973. It is a matter of competing priorities.

Normally the U.S. contribution to the UIA grant has run at 3 percent of the total MRA, and there have been certain exceptional years when it has been higher than that because the needs have been higher and because the budgets for the MRA have been higher.

But the normal over-the-years contribution of the U.S. Government to the UIA has been 3 percent, and that is what we would suggest this year at the $10 million level.

Senator KASTEN. I am just looking back at least year. It was $25 million. Now it is going to $10 million, a 60-percent reduction.

You said the reason was the summit agreement. The summit agreement tied in defense and foreign affairs. 150, this account, was locked in in the summit agreement with a 2-percent increase. So if you were consistent with the summit agreement, you would have had $25 million plus 2 percent. That would have been the summit agreement, not for this particular account.

We are not communicating here.

Mr. MOORE. Last year our budget request for fiscal year 1988, Senator, for the UIA was exactly the same as it is this year. When that grant was higher last year, we had to take a 9-percent cut across the board in assistance programs because of that grant being higher than the $10 million.

Senator KASTEN. Because of congressional action?

Mr. MOORE. Yes, because of the earmark. I am not even here to say that one is more important than the other, but it was our belief that these other programs for assistance were more important than the UIA grant being over the $10 million level which was the traditional 3 percent level that it has normally been funded at.

The $15 million, that would have been saved if there had not been an earmark, could have paid for 10,500 refugee admissions to the United States, could have paid for 90 percent of the entire U.S. contribution to UNHCR for the 3 million Afghan refugees in Pakistan. Again, that $15 million savings would have equaled the entire contribution for refugee assistance for Southeast Asia for the refugees in first asylum.

Senator KASTEN. I am not arguing with any of the other areas of interest. I am just trying to get at what I think are several inconsistencies in the way we are working here. Just as we are talking about a drug war and cutting funds for the Coast Guard, during the last couple of months we have been talking about tremendous increases in working with the Soviet Union and the Soviet emigration of Jews, and we cut by 60 percent the refugee program here.

I think it is clear that the Congress is once again going to increase this amount. I do not know by how much.

Mr. Chairman, we can go on for a long time. I think all of us have said this, but I would like to submit additional questions for the record.

I thank you very much for giving me what is an inordinate amount of time.

Senator DECONCINI. I have no questions. Thank you, Mr. Chairman.

MOZAMBICAN REFUGEES

Senator INOUYE. I would like to touch upon Rinamo. We have been receiving increasingly graphic reports of the slaughter, the destruction of villages, and the execution of women and children.

What are we doing about this? Are we calling upon South Africa to do something about this? It is supported by South Africa, as we all know.

Mr. MOORE. Mr. Chairman, forgive me for what I am sure what you will correctly regard as an evasive answer, but my jurisdiction does not run to making foreign policy that affects Mozambique, the Republic of South Africa and the other nation states of Southern Africa.

What I am responsible for is to provide policy, to recommend and try to implement policies. We provide humanitarian assistance to the refugees in Southern Africa who are in trouble, and the Refugee Programs Bureau did take the steps to do a study of refugee conditions in Southern Africa which resulted in the first systematic examination of why the Mozambican refugees continue to be generated out of Mozambique and to go to places like Malawi and Zimbabwe and Tanzania and even South Africa under awful circumstances, emaciated, with little clothing, in desperate circumstances.

The Refugee Programs Bureau under my direction organized a study by a consultant to go out to Southern Africa and to examine problems of (1) assistance and relief for the refugees from Mozambique who are in neighboring countries, (2) protection problems in most countries, in most situations of first asylum, and (3) issues of premature and involuntary repatriation of refugees back to Mozambique before conditions had changed in Mozambique—those conditions which had caused those refugees to leave in the first place, inadequate food distribution and protracted violence in various areas around the country.

This consultant, in a 3-month effort to interview almost 200 Mozambican refugees, interviewed them in Mozambique and the surrounding countries, and revealed and described the awful practices of Renamo, atrocities, murders, intimidation, general mayhem of the local Mozambican population, which forced these refugee flows.

So the contribution which the Refugee Programs Bureau made was an analysis and a publication of the analysis of exactly the conditions that you referred to, Senator, and the practices of Renamo.

We in the Refugee Programs Bureau are taking the evidence which was produced by this report and the findings and are trying to improve refugee policies both within the countries of first asylum and within Mozambique.

What is done particularly to change the practices of Renamo or to discourage them or to limit their support is not in my jurisdiction, and if you were to submit questions for that we would try to get answers from the proper authorities within the State Department.

But we take it very seriously, and we obviously did not go out there to do this report to just leave the situation alone.

Senator INOUYE. I would like to ask many more questions, but we will be having a series of about four votes this morning, and we do have two other agencies to hear from. So we would like to submit to you questions for your concern and consideration and answers.

Mr. MOORE. Yes, Senator. I would be happy if you would do that, and we will try to give you expeditious answers.

Senator INOUYE. I thank you very much.

Mr. MOORE. Thank you, sir.

[A brief recess was taken.]

Bureau of International Narcotics Matters

STATEMENT OF ANN B. WROBLESKI, ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL NARCOTICS MATTERS, DEPARTMENT OF STATE

ACCOMPANIED BY JAMES VAN WERT, EXECUTIVE DIRECTOR, BUREAU OF INTERNATIONAL NARCOTICS MATTERS

BUDGET REQUEST

Senator Inouye. Our next witness is the Honorable Ann Wrobleski, Assistant Secretary of State, Bureau of International Narcotics Matters.

Madam Secretary, it is good to have you with us. Please proceed.

Ms. Wrobleski. Thank you, Mr. Chairman. I have submitted my formal testimony which details our budget request of $101 million for 1989. I would like to take a few minutes to highlight that testimony for the subcommittee.

KEY LATIN AMERICA SOURCES OF DRUGS INTO THE UNITED STATES

Latin America and the Caribbean continue to be the source and transfer points for all of the cocaine, a third of the heroin and most of the marijuana entering the United States. Consequently, 80 percent of the program funds and more than 50 percent of the entire budget is directed to this hemisphere reflecting the Department's highest priority on cocaine reduction.

Three of the four largest programs are dedicated to coca reduction in the Andean region. Our testing to find a safe, effective herbicide to use against coca is nearing completion and, we think, offers the best hope for the future.

We seek funding for coca eradication in Colombia and to support police enforcement efforts including the pilot riverine project. Our goal is to eliminate cannabis entirely, including the newly discovered areas around the Gulf of Uraba.

In Peru and Bolivia, funds would be used for interdiction efforts and coca eradication. Enforcement assistance will continue to play a dominant role in these countries with special focus on sustained interdiction and security support for police and eradication workers.

The voluntary eradication program destroyed over 1,100 hectares in Bolivia to date.

In Brazil, funds will support riverine operations as well as ongoing manual marijuana and coca eradication efforts.

Funding is needed to pay increasing costs in maintenance and support for the Mexican narcotics control air fleet. We continue to seek management improvements in all aspects of the Mexican campaign.

In the Caribbean we are urging Jamaica to begin aerial eradication of marijuana and will provide funding for aircraft support of both interdiction and eradication objectives.

With the signing of a $1.6 million program agreement in 1987 and the recent opening of a narcotics assistance unit, a more comprehensive narcotics control package is required for Venezuela where we will support the national guard helicopter fleet for both interdiction and eradication.

The Latin American regional program will support eradication programs in Belize, Guatemala and the Caribbean. This program also supports regional interdiction activities which are coordinated by the National Narcotics Border Interdiction System.

DRUG IMPORTING FROM SOUTHEAST ASIA

Thailand, Burma and Laos will produce an estimated 1,400 metric tons of opium in 1988 and 1989. Significant initiatives include the Burmese aerial eradication program. U.S. support allows Burma to reach previously inaccessible cultivation areas. In fiscal year 1989 we will provide support to maintain and repair rotary wing and fixed wing aircraft previously supplied to the Burma Air Force and, to the extent possible, will also support Burma's medium lift logistics requirements.

Thailand's opium production continues to decline due to the government's effective crop control policy. The fiscal year 1988 budget helps the Royal Thai government reduce opium poppy cultivation by continuing assistance to farmers who agree not to cultivate poppy or whose poppy crop is eradicated.

The Laotian opium situation presents severe problems because cultivation and trafficking are expanding amid reports that some Lao officials may be facilitating heroin trafficking.

AFGHANISTAN, PAKISTAN, AND IRAN

Opium production in Afghanistan, Pakistan and Iran was estimated at 740 to 1,060 metric tons in 1987 with prospects for reduction only in Pakistan which has enforced its poppy ban in all settled and large areas.

We are supporting the extension of the Pakistan ban on opium cultivation by introducing improved agricultural crops and by making minor improvements on irrigation systems. In 1989 we will continue this effort and pursue other outreach activities.

TURKEY

In Turkey we will continue to provide commodities to support the narcotics interdiction capabilities of both the Turkish national police and the Jandarma.

EXPANDED AVIATION PROGRAM

An effective aerial herbicide program to control coca production in South America will require expansion of our aviation program, including funds to support the maintenance, hangaring and some operational costs for IMN-owned air assets. Additional helicopters, fixed wing spray and cargo aircraft may be procured to support expanded eradication and interdiction efforts in Central and South America as well as Southeast Asia.

We will fund DEA, Customs and Coast Guard training of approximately 2,000 foreign officials from 55 countries through 50 IMN country programs and 14 programs in the United States.

Our public diplomacy/demand reduction program contributes to international narcotics control by mobilizing support for narcotics control policies and programs in key producing and transit countries.

The program also provides technical assistance in drug abuse prevention, treatment and related research to help countries such as Pakistan, Ecuador and Bolivia deal with their domestic drug problems.

The fiscal year 1989 budget will provide limited funding for the United Nations Fund for Drug Abuse Control, UNFDAC, the Colombo Plan's efforts for regional narcotics control activities, and expanded drug programs undertaken under the auspices of other international organizations such as the Organization of American States and the Pan American Health Organization.

Mr. Chairman, this is a brief review of our budget request. I am prepared to answer any questions on budget or program issues.

I want to introduce Jim Van Wert, who is our controller who accompanies me at the table this morning.

[The statement follows:]

TESTIMONY
ASSISTANT SECRETARY ANN B. WROBLESKI
BUREAU OF INTERNATIONAL NARCOTICS MATTERS
DEPARTMENT OF STATE

to

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FOREIGN OPERATIONS
UNITED STATES SENATE
June 10, 1988

Mr. Chairman:

My testimony today is in support of the Department of State's request for an appropriation of $101 million to fund the international narcotics control program administered by the Bureau of International Narcotics Matters. The budget request we have submitted to the Subcommittee on Foreign Operations represents a two percent increase over FY 1988 levels and is reflected in our 1988 International Narcotics Control Strategy Report (INCSR), which was submitted to the Congress on March 1.

This INCSR report is the second under the procedures established by P.L. 99-570, the Anti-Drug Abuse Act of 1986. On the basis of our report, President Reagan has certified the Bahamas, Belize, Bolivia, Brazil, Burma, Colombia, Ecuador, Hong Kong, India, Jamaica, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru and Thailand as cooperating with the United States, or as having taken adequate steps on their own to control production, trafficking and/or money laundering. The President also certified Laos, Lebanon and Paraquay on grounds of vital national interest. The President withheld certification from Afghanistan, Iran, Panama and Syria.

In determining the recommendations to the President under P.L. 99-570, the Department of State has considered each country's relative capability to achieve maximum reductions in production as a foremost priority, and also to develop and enact the legal and law enforcement measures which this statute contemplates. To repeat my observation to this committee of a year ago, there is no foreseeable alternative to an outright ban on cultivation of illicit narcotics, enforced by eradication, with sufficient interdiction and enforcement capability to seize contraband and financial assets, and to arrest and prosecute major traffickers. This is the basis for our proposed FY 1989 budget which is designed to provide supporting assistance to the narcotics control programs and operations of cooperating countries

I have taken several initiatives during the past 12 months since we last testified before this Subcommittee that are designed to help strengthen our efforts. First, I have instituted an integrated process of policy formulation, program planning, resource allocation and project monitoring that requires each post to develop viable results-oriented operating plans. These plans, which are monitored quarterly, must include targets of performance, milestones and measures of effectiveness. This internal process is fully in keeping with the international strategy which we developed under the aegis of the National Drug Policy Board.

Second, recognizing the fiscal restraint that binds us all, I have commissioned my staff to coordinate more closely with DEA on an enhanced cocaine interdiction effort in the Andean region and sought increased sharing of limited resources from DOD, particularly in the area of aviation support and field operation training. In both areas, I believe we are making progress and will reap benefits in the months to come.

Finally, through greater reliance on effective public diplomacy efforts, I have focussed more attention on building public support within the producing countries for more effective narcotics control efforts. Not until each country perceives the problem as one that truly affects its own national security will we see the commensurate level of commitment and will to cooperate with us. This public diplomacy effort is an underpinning of the Secretary's overall policy guidelines on International Narcotics Control.

The 1988 and 1989 Program Agenda

The 1989 budget request at $101 million is essentially a continuation of the 1988 budget level of $98.7 million, adjusted for inflation. Approximately 80 percent of our program requests for both 1988 and 1989 is devoted to narcotics control efforts in this hemiphere, targetted principally on the cocaine and marijuana coming from South America, and the heroin, marijuana and cocaine coming from and through Mexico. The major funding categories are for support of eradication and interdiction in the region.

Latin America and the Caribbean

Latin America and the Caribbean continue to be the source and transfer points for all of the cocaine, a third of the heroin, and most of the marijuana entering the United States. The prominence of Latin America and the Caribbean in the cultivation, production and transportation of illicit drugs to the United States requires that 80 percent of program funds and more than 50 percent of the entire INC budget request be directed to programs in the hemisphere.

Colombia, Mexico, Jamaica, and Paraguay are significant cultivators of marijuana. Moreover, in addition to producing major quantities of marijuana, several Central American and Caribbean states along with Mexico, serve as important transit points for cocaine. Mexico also produces at least 30 percent of the heroin arriving in the United States.

Significant accomplishments during 1987 include eradication of 85 percent of the marijuana cultivated in Colombia's traditional growing areas through aerially-applied herbicides; eradication of virtually all of Belize's marijuana; eradication of approximately 60 percent of Jamaica's marijuana through use of manual eradication and backpack sprayers; initiation of an aerial spraying campaign for marijuana and opium poppies in Guatemala and continued eradication of marijuana and poppies in Mexico.

Additionally, the Department increased testing to identify a safe and effective herbicide against coca, tests which are nearing completion and offer much promise for future eradication campaigns. We also supported a strong enforcement effort in Bolivia and a serious voluntary eradication program which resulted in the destruction of over 1,000 hectares. Accomplishments in the area of institution building and enforcement include installation and successful utilization of a Joint Information Coordination Center (JICC) in the Dominican Republic; renewed enforcement efforts in Peru in spite of increased trafficker and insurgent violence in the area; Colombia's extradition to the U.S. of a major cocaine trafficker; and, the formation of an OAS Commission for Narcotics Control [CICAD].

Once an effective and environmentally safe coca herbicide is identified, the Department will seek permission from the Governments of Peru, Colombia, and Bolivia to begin test programs followed by full-scale application. The FY 1989 budget proposes expanded use of the centrally managed, interregional air support capability established in 1987. While its primary use will be to support coca eradication and enforcement operations in the Andes, it will also be used for drug control in other parts of the world.

Reflecting the Department's highest priority on cocaine reduction, three of the four largest programs are dedicated to coca reduction in the Andean region. In FY 1989, the Colombia program will seek funding for coca eradication to support anti-narcotics police enforcement efforts throughout the country and for the enhancement of the pilot riverine project to be started in FY 1988. In addition, it builds upon the existing 1987-88 aerial campaign to eliminate cannabis entirely, including in the newly-discovered areas around the Gulf of Uraba.

In Peru and Bolivia, FY 1989 funds will be used for both interdiction efforts and coca eradication. Enforcement assistance will continue to play a dominant role in these two countries, with special focus on sustained interdiction and security support for police and eradication workers.

In Brazil, FY 1989 funds will support riverine operations begun in FY 1988, as well as ongoing manual marijuana and coca eradication efforts.

In FY 1989, funding is requested to cover increasing costs in maintenance support for the Mexican narcotics control air fleet. The Department will continue to seek management improvements in all aspects of the Mexican campaign against opium poppies, as well as in the availability and utilization rates.

In the Caribbean, the Department will continue to press the Government of Jamaica to begin aerial eradication of marijuana to maximize efficiency and effectiveness. Funding will be provided for aircraft support in pursuit of both interdiction and eradication objectives.

Until FY 1989, assistance to Venezuela will be provided from the Latin American Regional Fund; however, with the signing in FY 1987 of a $1.6 million program agreement and the recent opening of a Narcotics Assistance Unit in our Embassy in Caracas, a more comprehensive narcotics control package is required. Therefore, in FY 1989, a separate country program designation will be given to support the National Guard helicopter fleet for both interdiction and eradication.

The Latin American Regional program will also support eradication programs in Belize, Guatemala, and the Caribbean. Additionally, this category provides flexibility to grant resources for operations in countries that do not have separate budgets, upgrade the enforcement capabilities of police in many countries, and support such regional activities as the National Narcotics Border Interdiction System interdiction effort, and joint maritime interdiction efforts.

East Asia

The "Golden Triangle" countries, Thailand, Burma and Laos, will produce an annual opium crop estimated in excess of 1,400 metric tons in 1988 and 1989; almost all of this opium comes from Burma and Laos. Significant initiatives in the area include the Burmese aerial eradication program, which has expanded every year since its introduction in 1985. Supported by U.S. Government funding for aircraft, equipment, and training, this spray program allows the Socialist Republic of Burma [SRUB] to reach previously inaccessible cultivation areas. In FY 1989, resources will be provided to enable the Burmese Government to continue operations aimed at narcotics producing and trafficking groups. The Department will support the ongoing program to maintain and repair rotary-wing and fixed-wing aircraft previously supplied to the Burma Air Force and, to the extent possible, will also support Burma's medium-lift logistics requirements.

Thailand's opium production continues to decline due to the Government of Thailand's effective crop control policy. The FY 1988 budget provided funding to help the Royal Thai Government further reduce opium poppy cultivation by continuing "bridge" assistance to farmers who agree not to cultivate poppy or whose poppy crop is eradicated.

The Laotian opium situation will continue to present severe problems because cultivation and trafficking are expanding, and there is no discernible Lao government effort to control this production and trafficking. Nothwithstanding the absence of U.S. Government narcotics control programs in Laos, U.S. Government officials will continue to raise the issue of opium and marijuana control with the Laotians in both bilateral and multilateral forums.

Southwest Asia

Opium production in the Southwest Asian countries of Afghanistan, Pakistan, and Iran was estimated at 740-1,060 metric tons in 1987, with prospects for reductions only in Pakistan. Nearly half the heroin marketed in the United States is estimated to be derived from Southwest Asia opium. In response to the serious increases in opium cultivation, the Government of Pakistan has enforced the poppy ban in all settled and merged areas with or without the promise of development projects. Pakistan has also accepted restrictive poppy clauses which commit the Government to keeping the U.S. Government's AID project areas free of opium poppy and, in late 1986, the Government of Pakistan initiated an aerial opium eradication program to destroy the illicit cultivation.

In FY 1988, the Department will support the extension of Pakistan's ban on opium poppy cultivation by introducing improved agricultural crops and by making minor improvements on irrigation systems as part of the continuing agricultural outreach program in the Malakand and Dir areas. In FY 1989, the Department will continue the implementation of this effort as well as pursue other outreach activities to prevent the spread of opium poppy cultivation and help poppy growers substitute other new crops in areas where major development assistance projects are not being carried out.

In Turkey, the Department will continue to provide commodities to support the narcotics interdiction capabilities of both the Turkish National Police and the Jandarma. Funding is also included to support a regional telecommunications advisor in Pakistan who works with counterparts in Turkey, Pakistan, Burma, Thailand, and other countries in Asia. Limited commodity support for other enforcement activities in Southwest Asia may also be provided as requirements are identified.

Interregional Aviation Support

In FY 1989, introduction of an effective aerial coca control herbicide will require that the aerial eradication program be expanded from the opium and marijuana producing countries to support the major coca producing countries. The program will require funds to support the overall maintenance, hangaring, and some operational costs for the Department-owned air assets. Based on evolving needs in cooperating countries, additional helicopters, fixed-wing eradication and cargo aircraft may be procured to provide support for cooperating countries of Central and South America and Southeast Asia as eradication and interdiction programs are expanded.

Interregional Training/Demand Reduction

Under the FY 1989 international narcotics control training program, the Department will continue to fund U.S. Drug Enforcement Administration and U.S. Customs Service training of approximately 2,000 foreign officials from 55-60 countries through 50 in-country programs, 14 programs in the United States, and 30 Executive Observation Programs. Increased emphasis on other Department of State-sponsored programs, e.g., maritime interdiction training and narcotic detector dog training.

The Department's centrally-managed public diplomacy and demand reduction program contributes to international narcotics control by mobilizing support for narcotics control policies and programs in key producing and transiting countries. These projects encourage greater political and public awareness of the link between domestic drug abuse, international trends in production and trafficking, and the steps which societies and governments can take to control the problem. The program also provides technical assistance in the areas of drug abuse prevention, treatment, and related research to help countries such as Pakistan, Ecuador, and Bolivia deal with their domestic drug problems.

International Organizations

The FY 1989 budget will provide limited funding for the United Nations Fund for Drug Abuse Control [UNFDAC], the Colombo Plan's efforts for regional narcotics control activities, and expanded drug programs undertaken under the auspices of other international organizations such as the Organization of American States [OAS], Pan American Health Organization [PAHO], etc.

Conclusion

This brief review of our budget request completes my formal testimony. I am prepared to answer questions on our budget or on program issues. Thank you.

THE FY 1989 BUDGET
International Narcotics Control Program
Fiscal Summary
[Dollars 000]

	FY 1987 ACTUAL	FY 1988 ESTIMATE	FY 1989 REQUEST
COUNTRY PROGRAM			
LATIN AMERICA			
Bolivia	12,540	5,000 [2]	10,000
Brazil	3,325	1,400	1,600
Colombia	11,553	11,000	10,000
Ecuador	1,178	1,000	1,600
Jamaica	3,330	2,000	1,000
Mexico	14,500	14,500	15,000
Peru	8,430	5,500	10,000
Venezuela	--	--	1,000
Latin Amer Regional	10,111	7,000	6,000
Subtotal	64,967	57,400	56,200
EAST ASIA			
Burma	9,417	7,000	7,000
Thailand	4,738	4,000	3,900
Subtotal	14,155	11,000	10,900
SOUTHWEST ASIA			
Pakistan	6,900	4,800	5,300
Turkey	745	700	750
ASIA AFRICA REGIONAL	624	450	450
Subtotal	8,269	5,950	6,500
INTER AVIATION SUPPORT	17,834	14,500	18,000
TOTAL	105,225	88,850	91,600
Intl Organizations	4,000	1,100	1,100
Trraining/Demand Reduc	7,020	5,500	5,000
Prog Develop/Support	2,194	3,300	3,300
TOTAL INM PROGRAM	118,439 [1]	98,750	101,000

[1] Includes $53 million from the Anti-Drug Abuse Act of 1986 [PL 99-570].

[2] The $15 million program budget for Bolivia was mandated by Congress in its FY 1988 Continuing Resolution.

International Narcotics Control Program
by
Functional Activity
[Dollars 000]

	Actual FY87	Percent of Total
Crop Control/Eradication	52,673	45
Enforcement Assistance/Interdiction	46,367	38
Income Replacement/Development Assistance	1,500	1
International Organizations	4,000	3
International Drug Demand Reduction	1,975	2
Training	4,695	4
Program Development and Support	7,229	7
TOTAL PROGRAM	118,439	100

	Planned FY88	Percent of Total
Crop Control/Eradication	43,455	44
Enforcement Assistance/Interdiction	35,210	36
Income Replacement/Development Assistance	3,350	3
International Organizations	1,100	1
International Drug Demand Reduction	1,575	2
Training	4,750	5
Program Development and Support	9,310	9
TOTAL PROGRAM	98,750	100

	Request FY89	Percent of Total
Crop Control/Eradication	45,021	44
Enforcement Assistance/Interdiction	35,059	35
Income Replacement/Development Assistance	3,550	3
International Organizations	1,100	1
International Demand Reduction	2,065	2
Training	4,500	5
Program Development and Support	9,705	10
TOTAL PROGRAM	101,000	100

COCAINE PROCESSING IN COLOMBIA

Senator INOUYE. Thank you very much, Madam Secretary. At this moment we are discussing drugs upstairs, and obviously it has become a matter of the most grievous concern to the people of the United States.

Most of the publicity suggests that the source of cocaine is Colombia. Is the nation of Colombia assisting us?

Ms. WROBLESKI. Yes, sir. Colombia is less of a source country, sir, than it is a processing country. Almost all the coca that is produced in Bolivia and Peru, the two largest producers in the world, is refined in Colombia and then marketed through the Colombian cartel, the so-called Medellin Cartel.

We and the government in Colombia are united in the fight against the Medellin Cartel, and it is not so much a question of the United States Government versus the Government of Colombia but the Colombians and the Americans against the Medellin Cartel which is the most violent, richest, best organized international criminal organization I think the world has ever seen.

PERU

Senator Inouye. What about Peru?

Ms. Wrobleski. The highlight in Peru, quite frankly, is the testing that is going on between the United States and Peru to find a safe and efficient and effective herbicide to use against coca.

There are about 150,000 hectares of coca in Peru. It is a massive expanse. It is in the upper Huallaga Valley. The security situation in the valley is tenuous at best. It is sometimes controlled by the Sendero Luminoso, other times controlled by the army and the police.

My sense is that the army and the police are gaining the upper hand, so we find a security situation involving guerrillas as well as a narcotics situation involving a large number of people who are growing an ever-increasing amount of coca.

The government of Peru has come to the same conclusion that we have, which is that to impact the production of coca we are going to have to take the crop, we are going to have to use an herbicide, and we are going to have to spray it aerially. That is what we have been testing to find.

In the meantime, we are running through paramilitary trips which are controlled by the Minister of Interior—large scale interdiction operations, hits against coca labs, hits against airstrips, hits against processing plants, hits on storage facilities. So we are really into good interdiction operations.

Our eradication operations are not good because we have not finished testing on this herbicide, the herbicide we have been looking for for 2 years.

Senator Inouye. I ask the question because I wanted the record to show that in my mind Colombia has done its share and possibly much more in fighting the trafficking of drugs.

The Minister of Justice, members of the Supreme Court, the Attorney General, several Senators, judges, prosecutors and hundreds of policemen have been killed, and if something like that happened in the United States I think we would be declaring war if just the Attorney General and one Supreme Court justice got killed. There, there have been many, many.

So I wanted the record to show that we are grateful to Colombia for what they are doing.

BAHAMAS AS TRANSHIPMENT POINT

On May 10 there were two full-page advertisements, one in the Washington Post and the other in the New York Times. They were paid for by the Commonwealth of the Bahamas and signed by the Attorney General. I think the ad says give us the tools so we will finish the job.

Now last year we provided $50,000 and the year before $60,000. One, in reading that, would get the impression that all they need is money. Yet, according to the New York Times that ad cost $43,452 and the one in the Washington Post $34,452.

I am beginning to wonder if we are paying for their PR program or assisting them with their drugs, because the International Narcotics Control strategy report for 1988, which is the State Department's report, noted that Bahamas is a major transit country for cocaine and marijuana entering the United States and estimated that between 50 to 60 percent of all cocaine and marijuana that enters the United States either transits Bahamian territory or is transshipped in the Bahamas.

Yet, on March 1 the President certified to Congress that the Bahamas had cooperated fully with the United States and taken adequate steps on their own to control narcotics trafficking.

Did you agree with this?

Ms. WROBLESKI. Yes, and I defended the President's decision in countless hearings.

If I could comment on your numbers, Mr. Chairman, what is not taken into account in the foreign assistance program is a separate appropriation which is part of the omnibus drug bill in 1986 allocating some $15 million to the United States Customs Service and the United States Coast Guard for operations in the Bahamas.

So I do not think it is fair to just look at the State Department, the 150 account and to say that that is all that the United States is contributing to the drug war in the Bahamas. We are contributing a substantial amount more than that.

As to the advertising campaign, I would only add that the ad also ran throughout the Caribbean. I was in Kingston, Jamaica at the time, and there was a full-page ad.

Senator INOUYE. Are they helping us?

Ms. WROBLESKI. We get excellent cooperation. It is the only country in the world that gives domestic enforcement agencies, Customs, Coast Guard, free rein to sail in Bahamian waters, overfly Bahamian air space, operate on Bahamian territory as long as they have members of the Royal Bahamian Defense Force with them.

My concern, quite frankly, has been that domestic law enforcement agencies of the United States are running the Bahamian drug war, and I would like to see more Bahamian participation and more Bahamian direction. I think that the Attorney General is responding in part to my criticism.

Senator INOUYE. I cannot help but think about deja vu, because it is just exactly what Noriega did. He permitted the skies to be open to our planes. He permitted his waters to be open to our ships. He had his agencies supposedly cooperating with us. I suppose under any standard you would say that he was cooperating. Yet, at least now we know otherwise.

Are you certain that they are cooperating with us, or do we have another Noriega lurking around there?

Ms. WROBLESKI. I cannot pass judgment on that. What makes the Noriega situation different, of course, is that Noriega has been indicted by two separate Federal grand juries.

What I hear from the embassy, what I hear from the agents on the ground, the pilots, the Coast Guard cutter captains is that the operational cooperation is excellent. The Bahamians have set up a special drug court. They signed a Mutual Legal Assistance Treaty with us.

Senator INOUYE. What is the status of extradition?

Ms. WROBLESKI. We are in the process of negotiating an extradition treaty with the Bahamas. The Bahamas is one of many countries that are former British territories. Our old extradition treaty with the British covered Bahamians, and we asked for extradition of one Nigel Bowe in accordance with that agreement. The legal play is that they have exhausted all remedies in the Bahamian courts, and the Nigel Bowe extradition case now moves to London to the Privy Council as I understand it. I am not an expert on British jurisprudence.

Basically, Mr. Bowe has excellent lawyers which befits his probably bottomless pocketbook, and we are fighting it all the way to the top.

Senator INOUYE. Recently the Bahamian Prime Minister, Sir Linden Pindling, suggested that we should enter into a reciprocal drug enforcement accord similar to the one that we recently signed with Great Britain.

Why is the United States not showing any interest in that?

Ms. WROBLESKI. As we have informed the Bahamian Government, we anticipate that the recently signed Mutual Legal Assistance Treaty will address this subject adequately. The MLAT is currently awaiting the advice and consent of the U.S. Senate. The Bahamian Parliament passed implementing legislation for the MLAT earlier this year.

CURRENT OUTLOOK ON U.S. DRUG INTERDICTION EFFORTS

Senator INOUYE. I have several other questions, but I will call upon my Vice Chairman here.

Senator KASTEN. Mr. Chairman, thank you.

Let me ask a broad question first. You have testified before us 3 years in a row; is that right?

Ms. WROBLESKI. I think it is three. Do not make it longer than it is.

Senator KASTEN. We kind of go through these statistics, and at the same time I think that most of us recognize, and correct me if you believe that I am wrong, that on an overall basis the United States of America is right now losing the war on illicit drugs and that we were probably better off when you first testified before us 3 years ago on an overall kind of a basis than we are right this moment.

You are seeing us react right now upstairs as Senator Inouye discussed with stiffening the penalties on drug kingpins and even moving toward capital punishment.

But how can you measure the value of the dollars that we have been spending in your particular program? Do you kind of justify it or rationalize it, I should say, by saying it would have been even worse had we not done what we have been doing for the last 3 years? Do we rationalize it because we need somewhere to cover ourselves politically and say, well, this is what we were trying for here?

You have to think about this more often than we do because you are living with it every day.

Ms. WROBLESKI. Let me say first that last year was the first year that the war on drugs overseas, in my view, had really adequate funding. We had $118 million in 1987. In 1988 it is $98 million. We had a 2-percent increase in the request for 1989.

I would think that we are seeing programs that are poised to pay off because we are putting the real dollars into them that we need to put into them. No longer can we look at the overseas drug problem and say, well, gee, if we run a program in Mexico, Colombia and Pakistan we can wipe this thing out.

We are now looking at running programs in 14 countries, big ticket programs. When I came into the Bureau we were running them in six. We are now running air wings, which is something we were not doing when I came to the Bureau. We have paramilitary troops in the field in Peru, Bolivia, and Colombia. All of that takes a lot of money. All of that is moving.

We have had success in our aerial campaigns against marijuana throughout the hemisphere: Colombia, Belize, Panama, Guatemala, Jamaica. What we need to do is translate that success on marijuana into success on cocaine. Again, it is not going to come until we can get the herbicide that we need, we can purchase it, and we can spray it.

So I would say that we have taken these 2 or 3 years to really test whether or not we can fight the drug war overseas. The answer, I am convinced, is yes, although we have to fight it at home also. That is why I know it is difficult for you in terms of the issues that you are facing here, but I am glad to see us finally taking the war in the United States as seriously as we have been taking it overseas.

SITUATION IN COLOMBIA

Senator KASTEN. You spoke about the relationship with the government of Colombia. I want to say that I share Senator Inouye's assessment of the Colombian situation, as difficult as it is. I think they have been working to try to help to assist us.

I want to shift, if I can, to Jamaica. Is it true that the government of Jamaica has refused to cooperate with you and your program and, more specifically, are the reports that we have received correct that on a recent visit which you made to Jamaica that government officials or at least certain government officials were unable or willing to visit with you and to see you? Does that indicate a lack of cooperation on their part?

Ms. WROBLESKI. Let me say that we have had, in my view, excellent cooperation from the Seaga government for about the last 2 years. We have an eradication program that works. Two-thirds of the Jamaican ganga crop was taken out of production last year.

We have a fledgling, it is true, herbicidal program, but I expect it to increase. It is a backpack program. It is not an aerial program, and I quite frankly do not think we are going to see aerial spraying until after the Jamaican elections.

In terms of the Prime Minister's decision not to accept my invitation to address a hemispheric narcotics conference which was held in Kingston early in May, he was, quite frankly, peaked over testimony by a convicted felon in front of Senator Kerry's subcommittee, Foreign Relations, to the effect that he, Prime Minister Seaga, was engaged in money laundering activities.

I can explain that bluntly. He decided to boycott our conference.

Senator KASTEN. So my information is inside out. It is not as if this is just a conference that he did not speak at. It is not as if you were requesting a meeting with the government or the enforcement people and they in fact refused to see you.

Ms. WROBLESKI. Well, we had asked him to speak because we do have this cooperative relationship. He was quite frankly put out by Mr. Vogel's testimony in front of Senator Kerry.

Senator Kerry later very graciously wrote the Prime Minister a letter explaining our system of open hearings, the idea that anybody can come before a subcommittee and testify and speak. That is how we do business in an open democracy.

I think that has gone a long way toward calming the Prime Minister, but I cannot speak to his decision. I would not have chosen to show my pique the way that he did, but that is what he did.

Senator KASTEN. Mr. Chairman, I have some additional questions which I would like to submit for the record.

Ann, thank you very much.

Senator INOUYE. I have just one question, and I would like to submit the rest.

REDUCED ASSISTANCE IN COLOMBIA, THAILAND, AND BURMA

I think your testimony has suggested that three of the top countries are Colombia, Thailand, and Burma. Yet, in all three of them we are reducing our assistance program.

Ms. WROBLESKI. That is true, Mr. Chairman.

Senator INOUYE. On the other hand, we are taking extraordinary steps, even skirting the Constitution such as involving our military, and now we are considering severe steps of death penalties. Here we are told all the sources of our problem, and we are cutting down assistance.

How do we justify that?

Ms. WROBLESKI. Well, I have to say, Mr. Chairman, that our big ticket expenditure is aircraft in terms of capital investment and in terms of operating and maintenance costs.

What we have in Colombia, one of our oldest programs, is years of expenditure on aircraft and air fleet that works well, that is maintained well by the Colombian government.

The same is true in Burma. We had a spray fleet maintained well by the Burmese government last year. We do not have those reoccurring big ticket capital costs in those three programs. The big capital costs that are facing us are Bolivia, Peru, Central America, the Caribbean; again, airlift support. So it is not a shifting away from. It is a question of with limited dollars where I need airlift support.

Senator INOUYE. So you do not think we are sending wrong messages to those fellows who run the Golden Triangle, for example?

Ms. WROBLESKI. No, I do not think so. I think that most observers would agree that everybody could use more money, but with the 2-percent budget summit I think this is a fair allocation.

Senator INOUYE. Madam Secretary, thank you very much. Thank you for waiting. We will be submitting to you questions, and I will await your response. Thank you.

COUNTER-TERRORISM

STATEMENT OF L. PAUL BREMER III, AMBASSADOR-AT-LARGE FOR COUNTER-TERRORISM, DEPARTMENT OF STATE

ACCOMPANIED BY ROSS STAREK, DEPUTY ASSISTANT SECRETARY FOR POLICY AND COUNTER-TERRORISM OF THE BUREAU OF DIPLOMATIC SECURITY

DROP IN ANTI-U.S. TERRORISM ATTACKS

Senator INOUYE. Our final witness this morning is the Honorable Paul Bremer III, Ambassador-at-Large for Counter-Terrorism, Department of State.

It is good to have you with us, and thank you for waiting. We know you do good work.

Ambassador BREMER. Mr. Chairman, you have a full statement.

Senator INOUYE. That has been made part of the record.

Ambassador BREMER. If I could just summarize it in 2 to 3 minutes, and then I would be happy to take your questions.

I am pleased to have with me Mr. Ross Starek, who is the Deputy Assistant Secretary in our Bureau of Diplomatic Security.

Mr. Chairman, I think it is true that we have made some progress in the fight against terrorism since I last testified before your committee. Attacks on U.S. citizens dropped about 25 percent last year. Attacks against Europeans were down about 30 percent. We had only one hijacking recorded last year, and we are making progress in putting the rule of law into effect against terrorists.

However, the trends in 1987 show that we had more terrorist attacks than ever last year. It looks like the figures are going to be even higher this year.

We continue to be concerned about Iranian and Libyan terrorism and the possibility of North Korean terrorism particularly as it applies to the upcoming Olympic Games.

We are continuing our policy of being firm against terrorists, putting pressure on states which support terrorists, and developing a program of action to deal with terrorists. It is in that respect that the anti-terrorism assistance program fits into our overall policy and contributes to the security of Americans abroad.

The program fosters respect for the rule of law and for human rights among the trainees, and it strengthens the police and law enforcement capabilities in the countries that we aid.

ATA FUNDING REQUEST

In fiscal year 1989 we are asking for $9.84 million, and we hope to concentrate the program on its legislative objectives, security for Americans, aircraft security and maritime security, focus on high-threat countries and undertake a rigorous evaluation of our completed programs and look at the problem of possible retraining for people.

We will also this year, Mr. Chairman, continue what we started last year, trying to find ways to strengthen cooperation with other countries which offer similar kinds of assistance.

Thank you.

[The statement follows:]

Testimony of
Ambassador-at-Large for Counter-Terrorism
L. Paul Bremer, III
on
the Anti-Terrorism Assistance Program

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear in support of the Administration's appropriation request for the Anti-Terrorism Assistance Program (ATA). Appearing with me is Ross Starek, the Deputy Assistant Secretary for Policy and Counterterrorism of the Bureau of Diplomatic Security.

I would like to give the Committee an overview of the current worldwide terrorism situation, detail our government's three-part counterterrorism policy and explain the critical role that the Anti-Terrorism Assistance Program plays in our counterterrorism efforts.

I - PROGRESS IN REDUCING TERRORISM

The fight against terrorism goes on. While progress may be neither as rapid nor as smooth as any of us would like, we are making progress. From 1986 to 1987, the number of anti-U.S. attacks worldwide dropped by 25%. The number of Americans killed by terrorists fell from 38 two years ago to seven in 1987. International terrorism in Latin America decreased by 32% and in Europe it fell 31% in the past two years. There was only one terrorist hijacking last year, the lowest number since we began keeping track 20 years ago. Unfortunately, there already has been the bloody hijacking of KU 422 this year.

One of our primary successes continues to be our effort to apply the rule of law to punish terrorists:

-- In France, Georges Ibrahim Abdallah was sentenced to a life term for his part in the assassinations of an American military attache and an Israeli diplomat and the attempted assassination of the American charge d'affaires.

-- In the Federal Republic of Germany, Abbas Hamadi has been sentenced to a thirteen year term for kidnapping a German businessman. His brother Mohammed Hamadi will go on trial on 5 July for air piracy and the murder of U.S. navy diver Robert Stethem during the hijacking of TWA flight 847.

-- In Italy, Abu Abbas was tried in absentia and sentenced to life imprisonment for his role in hijacking the Achille Lauro. He directed that terrorist operation, which led to the murder in his wheelchair of 69-year old Leon Klinghoffer. We applaud the vigor with which the Italian government pursued the case against Abu Abbas after his complicity became clear.

-- Here in Washington, another Lebanese terrorist, Fawaz Younis, awaits trial on charges that he held American citizens hostage when he led the hijacking in 1985 of a Royal Jordanian Airlines flight.

-- Less than two months ago, Yu Kokamura a member of the Japanese Red Army was arrested while travelling on the New Jersey Turnpike with a cache of three sophisticated, high-explosive bombs. His arrest is a matter of deep concern to all involved in the counterterrorism effort.

In general, another success is that terrorists are finding it harder to hide. Colonel Hawari, the infamous leader of the Special Operations Group of the PLO, was expelled from Iraq in June, 1987. When he subsequently entered Yugoslavia illegally, he was expelled from that nation. When he reentered Yugoslavia still another time, he was deported once again. Last year, Syria expelled the Abu Nidal organization from Damascus under pressure from Western nations, including the U.S. The notorious Syrian Qassar brothers, dealers in drugs and terrorism, were kicked out of Spain, Austria and Bulgaria in 1987.

As I noted earlier, progress in the fight against terrorism has its failures as well as its successes. The apparent agreement of Algeria to allow the murderers who hijacked KU 422 to trade their freedom for that of their hostages was a throwback to an earlier and unsuccessful era in the international effort to control terrorism. We have communicated strenuously these concerns to the Government of Algeria. We will leave no stone unturned in our efforts to secure the prosecution of these murderers for the brutal crimes that they committed. More recently, an internal flight within the Peoples' Republic of China was hijacked to Taiwan. While this hijacking resulted in neither injuries nor death, we still call upon Taiwan to fulfill its international obligations and to prosecute these hijackers to the full extent of Taiwanese law.

II - Current Terrorism Trends

While many developments are encouraging, the fight against terrorism is far from over. Indeed, there were more international terrorist incidents last year than in any previous year. Last year was also the bloodiest year: over 2000 persons were wounded and more than 600 died in terrorist attacks. These figures can be largely explained by the enormous increase in state-sponsored terrorism conducted by the government of Afghanistan in Pakistan.

Current trends show that the number of incidents in 1988 is up significantly from the number experienced in 1987. We are deeply concerned by an upsurge in Iranian terrorism and recent evidence that Libya is becoming more active as a sponsor of terrorism. Another particularly disturbing trend is the increase in the number of anti-American attacks undertaken by terrorist organizations such as Abu Nidal and the Japanese Red Army. Already this year we have seen either incidents or arrests involving these organizations in almost all regions of the world.

Afghan Terrorism Dominates 1987 Record

Last year, the regime in Kabul and, by extension, its Soviet backers, drastically escalated its unprecedented campaign of terror in Pakistan. This campaign to change Pakistan's principled support for Afghan self-determination involved at least 128 separate bombing incidents. Fully one-third of all deaths around the world from terrorism last year and 45 percent of all injuries were caused by this campaign. Had it not been for Kabul's cynical attempt to shut off Pakistan's support for the mujahedin, the number of worldwide terrorist attacks would have declined significantly in 1987.

We remain hopeful that the recent Afghan peace accords, and the consequent withdrawal of Soviet forces, will reduce the terrorist threat to Pakistan.

North Korea Threatens Olympics

The single most disgusting terrorist incident of 1987 was North Korea's mid-flight bombing of KAL flight 858 which killed 115 persons. This clear-cut example of state terrorism involved a bomb attack on a civilian airliner for which the attackers trained over a period of years. North Korean involvement in this incident is beyond doubt. Since January -- when evidence developed proving North Korea's sponsorship of the destruction of KAL 858 -- South Korea, the U.S., and other nations have been active in encouraging countries around the world to condemn North Korea's role in this incident. In the last several months there have been full reviews of this matter in the U.N. Security Council and at the International Civil Aviation Organization (ICAO) Council meeting in Montreal.

We must be concerned about the continuing possibility that North Korea or some other country or group will resort to terrorism to disrupt the forthcoming Olympic Games in Seoul. Our government is working closely with the Government of South Korea to prevent this. The U.S. is providing training, expediting the exchange of intelligence, increasing its own security presence, and taking a number of other steps to help reduce the likelihood of a terrorist incident before or during the Games.

To help prevent a terrorist incident either at or enroute to the Seoul Olympics, the United States and South Korea are cohosting a regional aviation security conference at the end of this month. This meeting will establish a common set of enhanced aviation security procedures which will be implemented for the Games by air carriers and airports in the region.

Iranian Terrorism Increasing

Iranian leaders continue to view terrorism as a legitimate foreign policy instrument. Tehran uses terrorism selectively and skillfully in coordination with conventional diplomacy and military tactics. An example of this was the recent hijacking of KU 422 which has all the markings of a highly professional terrorist act undertaken by Iranian surrogates. The U.S. and many other governments are involved in comprehensive efforts to determine the extent of Iranian complicity in this hijacking.

Tehran also has tried to use terrorism to intimidate Persian Gulf rulers into ending their aid to Baghdad, to drive U.S. and French influence from region, and to kill opponents of the regime. Tehran used the threat of terrorism, along with attacks on Gulf shipping, in a vain attempt to discourage Kuwait and other moderate Arab Gulf states from supporting the U.S. reflagging effort. Iranian support for terrorism against Saudi Arabia was a key factor in the Kingdom's decision to break diplomatic relations with Tehran.

We estimate that the Iranian regime was involved in 87 terrorist incidents during the last three years; 40 of these were in 1987. These include attacks by Iranian-backed saboteurs against major Kuwaiti oil installations; smaller bombings of Kuwait's urban areas; assassinations of anti-regime Iranian dissidents living abroad; and various attacks inside Iraq.

Lebanon has been the scene of much Iranian-sponsored terrorism. As part of its effort to create an Islamic Republic in Lebanon, Tehran provides significant economic and operational support to Hizballah which is responsible for the kidnapping and detention of American and other Western hostages.

Syria Reduces Support

We believe that Syria has been involved in about 40 terrorist incidents since 1985. Syria has, however, taken several steps in the last 18 months which suggest that it may be lessening its support for terrorism. Last summer, for example, Syria expelled all known Abu Nidal terrorists. We are pleased at this progress, although we still have strong concerns about Syria's continuing support for terrorism. Syria continues to harbor many terrorist groups in Damascus and allows terrorist training camps to operate in Lebanon's Bekka Valley, which is under Syrian control. We are particularly concerned by the presence there of training facilities for Abu Nidal and JRA terrorists.

Libya Remains Active

Col. Qadhafi has been responsible for at least 39 major terrorist incidents since 1985. Although Libyan sponsored terrorist actions are down sharply since our bombing in April, 1986, Libyan agents are active throughout the world:

-- In May of last year, Australia closed the Libyan People's Bureau, citing concern over "clandestine activity."
-- Attempts were made to assassinate Libyan dissidents in Athens, Rome, and Vienna during 1987. In Vienna a court found a Libyan who was in contact with his Embassy guilty of attempted murder of a dissident and sentenced him to 10 years in prison.
-- In October, the French seized a shipment of arms from Libya bound for the Provisional wing of the IRA. The 150 tons of weapons constituted the largest terrorist arms shipment ever intercepted.
-- Switzerland expelled three Libyans in November for planning assassinations.
-- In February of this year, the Government of Senegal arrested three Libyans carrying explosives, detonators, firing devices, fuses, weapons, and false passports. These devices had been obtained with the complicity of the Libyan People's Bureau in a neighboring West African state.
-- Most recently, a number of terrorist incidents were launched which coincided with the second anniversary of the U.S. bombing of Libya. These included the bombing of a USO facility in Naples which killed five, among them a young enlisted woman in the U.S. Navy, the bombing of an Air Force radar site in Spain,

and bombing attacks on four American diplomatic establishments in Latin America. The coincidence of timing and Qadhafi's use of surrogates suggests a possible link between these events and Libya.

Qadhafi thus remains a danger. Recently, moreover, evidence has emerged indicating that at least some European governments are weakening their resolve to keep the pressure on Libya. I assure the Committee that our government is doing all that it can to make sure that other governments continue their effective measures against Libyan terrorism.

Hostage-Taking Continues

Hostage-taking in Lebanon continues to be a critical problem. There are now some 20 foreigners held hostage, including nine Americans. There have been a number of disturbing developments in this matter since I last appeared before this Committee. First, the kidnappings continue. While some hostages were released, others were taken. Second, terrorists continue to seize hostages with the intent of influencing the hostage's native country -- as in the case of the kidnapping of two Germans to prevent the extradition to the United States of a notorious Lebanese terrorist. Third, employees of the United Nations -- such as U.S. Marine Col. Higgins who was serving with a U.N. Peacekeeping Force -- have been kidnapped. And, for the first time, terrorists have targetted dual nationals for kidnapping.

Finally, and perhaps most unfortunately, a number of governments and corporations have paid ransom or made other concessions to secure the release of hostages. This practice, while it may secure the release of an individual hostage or two, condemns the world to a continuation of hostage-taking and makes the task of securing the freedom of American hostages even more difficult. Our government has made clear, publicly and privately, that we will not make concessions to free hostages and we discourage other nations from doing so. The leaders of the Seven Industrialized Nations pledged to make no concessions to terrorists when they met at the Venice

Summit in June. We expect our friends and allies to live up to that commitment and will advocate this at the forthcoming Toronto Summit.

III - AMERICA'S COUNTERTERRORISM POLICY

Our government has developed a comprehensive strategy to respond to the multi-faceted problem of international terrorism. And our strategy has contributed to the recent successes in fighting terrorism.

Firmness Towards Terrorists

The first element of our strategy is firmness towards terrorists. If we pay ransom, if we release prisoners, if we change our policies - or if we encourage other governments to do so -- we simply encourage more terrorism.

Some may accuse us of hypocrisy in view of some of our efforts several years ago to secure the release of American hostages. No doubt those efforts damaged the credibility of our "no concessions" policy. But as the President and other top officials have made clear over the past 18 months, we will not repeat those mistakes. We have learned the sad lesson that making concessions only results in more hostage-taking or other terrorist incidents. The only way to reduce terrorism is to make sure that it does not succeed. The simplest way to do this is to refuse to make the concessions that the terrorists demand. Firmness is not easy, but it works.

Our government has made clear that we will talk to anyone, any group or any government about the safety, well-being and release of our hostages. But we have also made clear that we will not make concessions to gain their freedom. The problem we have faced, quite simply, is the refusal of the terrorists to communicate with us except through press releases or videotapes.

I would like to add that rarely has the world seen such a firm example of the principle of firmness as was demonstrated by the Amir of Kuwait during the hijacking of KU 422. Despite the murder of two passengers, threats against members of the Royal Family and other efforts aimed at intimidating the Government of Kuwait, the Amir remained steadfast in his conviction that Kuwait would not trade the Dawa 17 prisoners for innocent hostages held on KU 422. The principles of the Amir serve as an eloquent example of the firmness that all nations should follow when confronted by terrorists.

Pressure on State Sponsors

The second element of our strategy is to make the state sponsors of terrorism pay the price for their actions. While this element of our strategy was most clearly shown by our bombing raids on terrorist support facilities in Libya in 1986, there are also peaceful measures to pressure states which support terrorism.

For example, after establishing North Korea's culpability for the destruction of KAL 858, we placed that nation on our list of state sponsors of terrorism. We are limiting further the issuance of visas to North Koreans. We are working with a number of governments to help prevent a recurrence of this event. In cooperation with the Government of South Korea, we are working to ensure the world knows what happened to KAL 858 and assesses blame where it belongs -- with the terrorist regime in Pyongyang.

However, we have to recognize that because of the very low level of U.S. connections with Pyongyang, our ability to apply real pressure is limited. Other countries, such as the Soviet Union and China, which purport to oppose terrorism have influence in Pyongyang. They should use it to prevent further North Korean terrorism.

We know that concerted international pressure on terrorist states works. After Western Europe imposed political, diplomatic and economic sanctions on Libya in 1986, Libyan-sponsored terrorism in Europe dropped dramatically. Similarly, Syria expelled Abu Nidal after Western European sanctions were imposed. It was another important victory for our counterterrorism strategy. Conversely, where the West has not developed a concerted strategy of pressure, state terrorism flourishes. Iranian terror tripled from 1985 to 1987.

Program of Action - Practical Measures

The third element of our counterterrorism strategy consists of practical measures to bring terrorists to justice, measures such as the identification, tracking, apprehension, prosecution and punishment of terrorists. This element of our strategy has developed well in the last two years.

We have gone on the offensive to bring terrorists to justice, to disrupt their operations and destroy their networks. Arrests and prosecutions of terrorists have become regular events in courtrooms throughout the world. Sentences commensurate with the crimes committed by terrorists are assessed by these courts and these sentences are being served.

Steps of a non-judicial nature are also being taken. Working with our friends and allies, we are developing a better understanding of terrorist methods, in part by pooling intelligence resources. We are engaged in research to develop equipment to prevent terrorist incidents. We have strengthened security measures to protect our citizens as they work and travel abroad.

Our Anti-Terrorism Assistance Program plays a crucial role in supporting this element of our comprehensive counterterrorist strategy.

IV - ANTI-TERRORISM ASSISTANCE PROGRAM

The Anti-Terrorism Assistance Program (ATA) of the Department of State directly supports our counterterrorist strategy. Through the training and assistance provided to participants in more than 50 nations, this program:

-- contributes to the security of Americans and our overseas facilities;

-- fosters a respect for the rule of law and human rights among trainees;

-- generates closer working relationships among counterterrorism policymakers in the United States and like-minded nations;

-- builds effective working relations between the Regional Security

Officers at our overseas facilities and counterparts in the police and law enforcement agencies of the host nation; and

-- strengthens the capabilities of the police and law enforcement services to protect senior officials and facilities of the national government. These skills, in turn, are available for the protection of American facilities and personnel.

I know that human rights are a continuing concern of the Congress and the American people. All countries seeking ATA assistance are screened first by the Department's Bureau of Human Rights and Humanitarian Affairs. The Congress is then notified of all preliminary decisions concerning the inclusion of a nation in the ATA Program. Our training stresses human rights concerns and issues throughout its curricula. All of these steps are designed to ensure that ATA assistance promotes a thorough understanding among program participants of the importance of human rights in all aspects of law enforcement.

Since the beginning of the ATA Program, over 6,000 police and security personnel from more than 50 nations have participated. In Fiscal Year 1987 the ATA Program trained nearly 1,500 participants from 24 countries and provided $1.1 million worth of communications and airport security equipment. This level of operations will continue in FY-1988.

For FY-1989 we are seeking an appropriation of $9.84 million for the ATA program which is the same as current year funding. At the same time, this program, now in its fifth year, continues to evolve. We undertook a major review of the program early in FY-1988. Our strategic plan confirmed the following orientation for the coming years:

-- The ATA Program will concentrate on its legislated objectives of security of U.S. missions and Americans overseas, aviation and maritime security.

-- We will focus much of the assistance provided through ATA on those countries with high threat and strategic priority, for example the Philippines, Pakistan, and Colombia.

- -- We will explore needs for retraining, the modification of existing training or the provision of equipment in support of previous training.
- -- We will implement an intensive evaluation system.
- -- We will continue our efforts to broaden coordination of U.S. assistance with that of other providers such as the United Kingdom, France and Canada.
- -- My office will work to strengthen interagency cooperation.

This year and next will see the ATA Program provide assistance to a number of countries which are emerging targets for international terrorism. As counterterrorist capabilities develop in Western Europe, North America and parts of Asia, we find that international terrorists increasingly strike at softer targets in other regions.

Helping these nations increase their capabilities is complex owing to the overall weaknesses of civilian law enforcement agencies in many of these regions. Also, it is expensive because some of these participants cannot share, owing to economic problems, in training-related costs. This means, for example, that in some cases the ATA Program has to fund air travel costs that we normally expect the participating nation to meet. Another factor is the steadily rising cost of equipment such as x-ray units for airports. As these units become increasingly sophisticated to deal with the weapons and tactics of terrorists, costs increase dramatically.

Our ATA assistance is integrated into the broader U.S. effort to assist friendly nations in improving their counterterrorism capabilities. Section 502 of the International Security and Development Cooperation Act of 1985 requires the Secretary of State to coordinate all of our government's terrorism-related assistance.

In my role as Chairman of the Interdepartmental Group on Terrorism, I work to ensure that all USG assistance is complementary and minimizes duplication. This is done through a variety of mechanisms, with the principal one being the Training and Assistance Coordinating Committee of the IG/T.

Last year we initiated an effort to coordinate our counterterrorism assistance with selected allies. An example of our success is in West Africa, where last summer an Air Afrique flight from the Central African Republic to Paris was hijacked. Following this incident, the United States and France cooperated in providing limited training and equipment to a number of nations to prevent a recurrence of this incident. The ATA Program has trained more than 50 West African airport and security officials at the Transportation Safety Institute in Oklahoma City. This training will be supplemented by assistance from the Federal Aviation Administration.

Mr. Chairman and Members of the Committee, I strongly endorse the President's request for $9.84 million to support the Anti-Terrorism Assistance Program in Fiscal Year 1989. This concludes my prepared testimony. Mr. Starek and I would be pleased to answer any questions from the Committee.

ABU ABBAS AND ITALY

Senator INOUYE. Thank you, sir.

On page 2 of your prepared statement, the following appears. "We applaud the vigor with which the Italian government pursued the case against Abu Abbas after his complicity became clear."

I must tell you honestly that I am quite astonished by this statement, and I really hope that this is not the official position of the administration. I am certain there are people in the United States who need not be reminded that the government of the United States took extraordinary steps by using one of our fighter aircraft to bring down this terrorist and force the plane to land in Italy.

We requested through proper channels that Abu Abbas be extradited as a terrorist to the United States, and the Italian government refused our request.

I do not know how one can say that this is a vigorous pursuit of justice. If anything, it was a travesty. But the fact that the Italian government sentenced Abu Abbas to life imprisonment in absentia is almost a joke after having let him go in the first place.

For the Italian government to conclude that they did not know that this fellow was dangerous, did they think that we would take this extraordinary military step to force this plane to land as some silly joke on our part?

Ambassador BREMER. At the time of the incident we made very clear, as you will recall, Mr. Chairman, the concerns we had and our unhappiness about how the Italians handled the immediate incident.

The purpose of my statement was simply to draw attention to the fact that the Italian government obviously has learned more about the incident since then.

Senator INOUYE. Well, why praise them?

Ambassador BREMER. Even though the precedent to the incident may have been objectionable to us, we are always pleased when we can see countries taking steps to bring terrorists to justice.

Now, the Italians have issued an international arrest reward for Abu Abbas. This means that as he travels around he has to be concerned that if he winds up in a country which has an extradition treaty he is subject to arrest. It makes it more difficult for him to conduct more terrorist acts.

Obviously we would have preferred a different resolution to the incident in the first place.

Senator INOUYE. This year you are requesting $9.8 million. It has not changed since 1987. How can we suggest that we are taking a strong step against terrorism?

I just note that in the last month we have had four attacks on the USIA buildings in Costa Rica, Colombia and Peru, a bomb attack on the USO club in Naples, and a bomb explosion at the Citibank office in New Delhi.

Do you think we are putting on a good fight with the same amount that you requested in 1987?

Ambassador BREMER. I think we are doing the best we can with the resources that we have, Mr. Chairman. As you know better than I, we are under a difficult budgetary situation in general, and it has been the view of the State Department that we can continue this program at roughly the same level that we have had for the last 2 years and still meet the basic needs that we have for training overseas.

Senator INOUYE. There is another reference in your prepared remarks to another success story in the fight against terrorism.

YUGOSLAVIA'S ATTITUDES

On page 3 you state the following. "Colonel Hawari, the infamous leader of the special operations group of the PLO, was expelled from Iraq in June 1987. When he subsequently entered Yugoslavia illegally, he was expelled from that nation. When he reentered Yugoslavia still another time, he was deported once again."

I am certain you know that Yugoslavia is also a country which refused to honor our request for the extradition of Abu Abbas, who was a mastermind of the Achille Lauro hijacking. We also provide Yugoslavia with U.S. assistance and a military education account.

How are the interests of justice served by Yugoslavia's refusal to arrest individuals accused of such crimes?

Ambassador BREMER. We have had with Yugoslavia confidential discussions about terrorism over the last 2 or 3 years. I would say that the general impression I have is that the Yugoslavs are taking a much more serious and constructive attitude toward terrorism as is demonstrated by the fact that they have, indeed, acted against Hawari.

We do not happen to have an arrest warrant against Hawari, so we have no grounds to ask for a country to detain him.

Senator INOUYE. What reason did they give for refusing our request to extradite Abu Abbas?

Ambassador BREMER. Mr. Chairman, I do not know the answer to that as I was not here. I would have to look into the record. I would be happy to provide you with an answer for the record.

Senator INOUYE. Have you encountered any obstacles within our Government to a more aggressive approach toward countries which support international terrorism?

Ambassador BREMER. No significant obstacles. I think the administration's line on being firm on terrorism is well accepted within the executive branch. There are always times when we have to weigh objectives on terrorism against other objectives, and there will always be frictions with those who want to weigh other objectives more strongly than counter-terrorism; but there is nothing significant.

IRAQ SITUATION

Senator INOUYE. Now, Abu Nidal has safe haven in Iraq, and he is considered one of the world's most wanted terrorists. Why is Iraq not listed as one of the countries supporting international terrorism?

Ambassador BREMER. I heard you to say Abu Nidal. Abu Nidal is actually headquartered in Libya at this time, Mr. Chairman.

To answer your question about Iraq, we do have concerns about Iraq. We continue to have concerns about the fact that known terrorists do seem to be able to move in and out of Iraq, but Iraqi support for terrorism has dropped dramatically, and that is why it was removed from the list in 1982.

Senator INOUYE. I have many other questions, but I will call on Senator Kasten.

EXTRADITION FROM GREECE

Senator KASTEN. Mr. Chairman, I have a couple of questions I would like to ask for the record.

Mr. Ambassador, there have been a number of articles recently about our efforts to extradite for prosecution a terrorist who is currently being held in Greece, being held by, I assume, the Greek government.

Are we making progress on getting that terrorist extradited, and would you just give us a brief review of that problem; how it has developed, what the status is, and where we are going?

Ambassador BREMER. Senator, in this open session I am not able to tell you a great deal of background of the discussions we are having with the Greeks on this issue.

We are, however, encouraged by the statement the Greek government made on Tuesday, when they reacted to those press stories, in which they reiterated the Greek government's dedication to the fight against terrorism. We are hopeful that that kind of statement will lead to a favorable Greek government decision, and I would prefer not to go further into that issue in open session.

Senator KASTEN. Let me go back. You said that the Greek government reiterated its position.

Over the years, have we not had difficulty in working with the Greek government in a situation such as this one?

Have there been questions raised by a number of people in our administration and other countries about the seeming reluctance of the Greek government to cooperate, particularly with some of the PLO and fellow traveler groups in terms of our efforts to control them, to try to follow them and to try to have them extradited?

Why is it that we seem to be having this trouble with this particular country?

Ambassador BREMER. I said reiterated because the Prime Minister of Greece made a very firm and clear statement which you may have seen about 3 weeks ago after the assassination of a well-known terrorist in Athens. He made a very strong statement about the Greek government's desire to promote further international cooperation against terrorism.

It is true there have been discussions with the Greeks, and we have had at times not entirely satisfactory discussions with them about terrorism. The discussions on the current case are in a delicate stage, and I would just as soon not say more about those.

Senator KASTEN. Thank you, Mr. Chairman.

JAPANESE RED ARMY

Senator INOUYE. Recently a Japanese Red Army member was arrested on the New Jersey turnpike. At the time of the arrest there were several homemade bombs in his car.

Can you share with us any information as to who its intended victims were or what his plans were?

Ambassador BREMER. The primary place to ask this question is the Federal Bureau of Investigation, but my understanding is that the terrorist is not cooperating with the police at this point, so the information is not available.

Senator INOUYE. Are we proceeding with charges against him?

Ambassador BREMER. Yes; but again, that would be the FBI that could answer those questions.

FUNDING LEVELS

Senator INOUYE. Seriously, do you think you have enough money to carry out the program?

Ambassador BREMER. I think we do.

Senator INOUYE. Folks in the back are shaking their heads the wrong way.

Ambassador BREMER. The folks in the back ought to listen to the President's proposed budget.

Senator INOUYE. Do you folks in the back have the message? Now they are nodding.

Well, Mr. Ambassador, I thank you very much. You will not be too angry if we give you more money. We will check with the folks in the back how much that should be.

SUBMITTED QUESTIONS

Senator INOUYE. Well, we have another vote, so if I may I would like to submit to you several questions. As you can see, there is a big pile here with several on our friend, Colonel Qadhafi, and we will await your response.

I realize that some of the answers may require special classification. If they do, please advise me; but we would like to receive classified information and do it according to the regular procedure because the question of terrorism is always asked of us, and we would like to know what is happening.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

NO ADDITIONAL FUNDING REQUEST IN FY 1989

SENATOR INOUYE: I understand that the Administration is not requesting any additional replenishment in FY 1989 of the $12,634,000 in the Emergency Refugee and Migration Assistance account.

In light of the Administration's own reports reaching this Subcommittee documenting growing refugee emergencies in Mozambique, Malawi, and Sudan, why are you not requesting additional ERMA funding?

How do you plan to make up for a funding shortfall if dire emergencies do arise in FY 1989 as they are likely to do?

AMBASSADOR MOORE: Because of overall limitations imposed on the Foreign Affairs budget by the Bipartisan Budget Agreement, the Administration is not requesting any replenishment of the Emergency Fund in FY 1989. It is probable that most of the $12.6 million balance remaining in ERMA will be used in FY 1988 to meet the urgent and unforseen needs in Africa which you mention.

Should dire emergencies occur in FY 1989, the Department would look to existing resources to fund those needs.

POSSIBLE INCREASE IN REFUGEE ADMISSIONS THIS YEAR

SENATOR INOUYE: It is distinctly possible that refugee admissions to the United States may increase in the near future and State Department funds for its admissions program may not be adequate to meet this need. The likelihood of increased refugee flows stems from several sources. Soviet policy on emigration may be loosening and may be emulated elsewhere in Eastern Europe. Vietnamese authorities have agreed to a resumption of the previously stalled Orderly Departure Program. Yet, at the same time, the Department is proposing a reduction in funding in the amounts available for the refugee admissions program.

In view of the reductions in funding how will the Department meet these pressures for increased refugee admissions?

Will the Department seek a full supplemental, change the implementation of admission requirements, or will it propose reductions in the services provided?

AMBASSADOR MOORE: Within the confines of the Budget Summit Agreement, our FY 1989 budget request reflects our best effort to meet the highest priority refugee needs for resettlement. The pre-consultations admissions level estimated for budget purposes for FY 1989 is 68,500. Although this estimate currently faces increasing rather than decreasing flows of eligible refugees we had to make difficult decisions between competing demands.

The Department's FY 1989 request for refugee admissions is $115.4 million. This request level will finance the same number of refugee admissions as in FY 1988--68,500--owing to the implementation of strict economy measures to reduce costs. The service levels that will be reduced in FY 1989 are (1) the per capita grants for reception and placement drop from $560 to $525; (2) the English as a Second Language/Cultural Orientation Program

(ESL/CO) will be reduced by about 20 percent; (3) the Department will no longer provide transportation loans for immigrants admitted under Orderly Departure Program (except for persons entering the United States under the Amerasian Homecoming Act); and (4) funding will be reduced for overseas processing.

ERMA FUND OBLIGATIONS

SENATOR INOUYE: When, over the last three years, have you found it necessary to draw upon funds from the Emergency Refugee Assistance account?

What is the basis for a Presidential determination that funds from the Emergency Refugee Assistance account should be used to meet a current refugee crisis?

AMBASSADOR MOORE: ERMA drawdowns from FY-1985 to the present were as follows:

FY 1985: $40 million total drawdown. $30 million for Africa as the drought there intensified and for resettlement of African refugees (Falashas). $2 million for Khmer relief as Vietnamese attacks on the Thai-Cambodian border required an emergency contribution to United Nations Border Relief Operation (UNBRO). $8 million for the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

FY 1986: $12.5 million total drawdown. $500,000 for the International Committee of the Red Cross (ICRC), for food for Filipino displaced persons in the Philippines. $12 million for Africa appeals of United Nations High Commissioner for Refugees (UNHCR) and the ICRC for life sustaining programs in Angola, Ethiopia, South Africa and Sudan.

FY 1987: $8.5 million total drawdown. $4.25 million for UNRWA and ICRC, to support emergency relief programs in Lebanon for refugees and civilians affected by intensified fighting. $4.25 million for Africa appeals of ICRC and UNHCR for life sustaining programs in Mozambique, Angola, Malawi, Ethiopia, South Africa and Sudan.

FY 1988: No fund drawdown to date.

The Emergency Refugee and Migration Assistance Fund, as defined by the Migration and Refugee Assistance Act of 1962, as amended, is available only for "unexpected urgent refugee and migration needs," and only after a Presidential determination that the provision of assistance in response to such needs is "important to the national interest." In 1979, the General Accounting Office (GAO) ruled that the "unexpected urgent" language of the Act limits use of the emergency fund to needs that (1) "were not foreseen and not planned for in the regular budget process...[including]...needs which the Administration cannot reasonably have been expected to anticipate," and (2) "must be satisfied immediately and cannot await the enactment of supplemental and appropriation acts."

REFUGEE TRANSPORTATION LOANS

SENATOR INOUYE: The GAO reported in February, 1987, that the Intergovernmental Committee for Migration needed to improve its collection of refugee transportation loans since only $58 million of the $144 million, or 23 percent, in due loans had been collected as of December, 1985. GAO recommended that the loans be referred to the Department of State for collection. (GAO/NSIAD-87-64, February 1987)

Is the Committee now referring its loans to the State Department and, if so, how many loans and what dollar amounts have been referred to State? How much of the amount assigned to State has been collected?

AMBASSADOR MOORE: The Bureau has been working closely with the Intergovernmental Committee for Migration (ICM) and the voluntary agencies to implement the GAO recommendation regarding the assignment of selected loan notes to the Department of State. In late October, 1987, ICM assigned 28 loan notes totalling $27,018 to the Department for collection. A series of three letters have been written to each of these refugees explaining the importance of their repayment as a source of funds for use in covering transportation expenses of other refugees admitted to the United States and of their obligation to repay the loan in full. As of June 28, 1988, the Bureau has collected $2,260 or 8 percent of the outstanding loans. Three refugees have repaid their loans in full ($1,390) and five refugees are making regular monthly payments.

The Bureau is currently making arrangements with ICM to have a similar number of notes assigned for further collection action by the Department. While some of the refugees have ignored the Bureau's letters, others have indicated through telephone conversations that they plan to begin paying off their loan. The Bureau is now studying the requirements of reassigning to a Government approved private collection agency the collection responsibility of those who continue to ignore their debt.

GOVERNMENT CONSULTATION

SENATOR INOUYE: What consultations have occurred with the Department of Health and Human Services to assure that the domestic resettlement budget is brought into line with the 68,500 FY 1989 admissions level proposed by the Department of State rather than the 51,000 which HHS used as the basis for its FY 1989 proposed budget?

AMBASSADOR MOORE: I have held extensive consultations, as U.S. Coordinator for Refugee Affairs, with representatives of the Department of Health and Human Services HHS) on this subject. There also have been other meetings and discussions on HHS' budget and policy options which have included the Department of State and the Office of Management and Budget (OMB). The Coordinator has written to OMB Director Miller on the subject, as has HHS Secretary Bowen. No final decisions have yet been made by the Administration as to what action, if any, to take. The final outcome will depend in part on what refugee admissions ceiling the President, after Consultations with the Congress, establishes for FY 89 based on humanitarian and foreign policy reasons.

DOMESTIC RESETTLEMENT

SENATOR INOUYE: What provision has been made for an increase in the domestic resettlement program budget to cover the costs for resettling the 15,000 additional refugees the Administration has requested be admitted in FY 1988?

AMBASSADOR MOORE: The Department of State is planning to cover the initial reception and placement needs of as many of the additional 15,000 authorized admissions as possible within its existing resources. These costs will be incurred in FY 88 and will depend in part on the effectiveness of cost-cutting measures and on the number of refugees actually admitted. (It is not yet clear how many of the 15,000 additional authorized numbers will be used.) HHS' domestic refugee resettlement costs for the additional authorized admissions will also be covered within existing resources during FY 88. (Certain non-refugee specific costs will result in additional expenditures, however, because they are covered through entitlement programs for which funds are self-appropriating.)

MATCHING GRANT PROGRAM

SENATOR INOUYE: Have steps been taken to increase the funding in the Voluntary Agency Matching Grant Program used to resettle Soviet and Eastern European Refugees? If not, why not?

AMBASSADOR MOORE: Matching grants are awarded on a one-time basis essentially at the time a refugee enters the United States. Virtually all matching grant funds will be required in FY 89 for the additional FY 88 admissions. Given the margins within its FY 88 budget estimate and current projections of the number of refugees who will be eligible for the matching grant program, HHS expects to be able to continue to award matching grants to all eligible Soviet and East European refugees for FY 88 within existing resources and without lowering the grant amount.

SOVIET/EAST EUROPEAN REFUGEES

SENATOR INOUYE: In the aftermath of the Moscow Summit, what is the prospect for increased immigration from the Soviet Union and Eastern Bloc?

How many family reunification cases involving Soviet spouses remain to be settled and what are you doing to pressure the Soviets to allow their prompt immigration?

AMBASSADOR MOORE: Over the past twelve months, the Soviet Union has significantly increased issuance of exit permission for certain groups. We welcome this development and expect Soviet emigration to continue at its current levels or to increase in the months ahead. We hope that this partial acceptance of the internationally recognized right to freedom of movement will be fully implemented and will be extended to all Soviet citizens. With the notable exceptions of Hungary and Poland, most Eastern European countries maintain restrictive travel and emigration regulations. Increasingly liberal travel policies in Hungary and Poland, however, will probably mean continued high levels of Polish and Hungarian refugees arriving in Western Europe applying to the U.S. refugee program.

There are currently two cases of divided spouses and four blocked marriages on the Department's representation list. We continue to make regular representations on behalf of specific cases as well as on the general principal that an individual should be able to marry and emigrate as he or she desires.

ARMENIAN IMMIGRATION

SENATOR INOUYE: What has been the level of Armenian immigration from the Soviet Union since the recent disturbances began?

Have the Soviets shown any willingness to allow increasing numbers of Armenians to immigrate?

Does the proposed increase of 15,000 refugees admitted into the United States include the prospect of increased Armenian immigration?

What steps have you taken to assist in Armenian resettlement?

AMBASSADOR MOORE: The disturbances in Soviet Armenia are not related to the increase in Soviet Armenian emigration. The level of Armenian applications to the Embassy in Moscow has remained over 1,000 a month since last autumn and has not changed significantly since the onset of civil unrest in late February.

All indications are that the Soviets have considerably relaxed restrictions on emigration for Armenians. The number of Armenians requesting refugee applications at the Embassy in Moscow has increased steadily since October, as has actual emigration, with some seasonal variations. In May almost 1500 Armenians were processed at the U.S. Embassy in Moscow for travel to the United States.

The increase was meant to accommodate the current flow as well as the possibility of further increases in Armenian emigration. The request for an additional 15,000 numbers for refugees from the Soviet Union and Eastern Europe was made after it became apparent that the Soviet Union had relaxed emigration restrictions for Armenians. At the same time there were increases in certain aspects of Eastern European emigration, notably of spouses and children of refugees already in the U.S., and of Hungarians and Poles. In the wake of these developments the original ceiling became obsolete.

Bureau officers have made two trips within the last eight months to Los Angeles County where most Armenian refugees settle. They met with the full range of service providers including voluntary agencies and Armenian community leaders. They also met with Los Angeles County and California state officials with an interest in Armenian resettlement, including health officials. The Bureau continues to monitor Armenian resettlement regularly and is in constant contact with the Armenian community and the pertinent voluntary agencies.

SOVIET JEWISH IMMIGRATION

SENATOR INOUYE: What have you done to persuade the Soviet authorities to ease the exit requirements imposed on Jews seeking to immigrate from the Soviet Union?

AMBASSADOR MOORE: We regularly urge the Soviet Government to permit all Soviet citizens, including Jews, to emigrate as they wish and to remove barriers to emigration such as: the requirement that an emigrant have a close relative in the country of his destination; the requirement that adults obtain parental permission to emigrate; and the use of security as a pretext to bar emigration.

TAMIL REFUGEE REPATRIATION

SENATOR INOUYE: What progress has been made to implement the terms of the peace accord with Sri Lanka which called for the resettlement of more than 125,000 Tamil refugees in India? Will the United States be contributing any funds in support of this effort?

AMBASSADOR MOORE: According to the United Nations High Commissioner for Refugees (UNHCR), as of mid-June, some 32,000 Sri Lankan refugees have returned from India to Sri Lanka out of the approximately 135,000 said to be in India. The UNHCR is providing transit facilities for reintegration and medical screening and the provision of an immediate relief and re-integration package. The relief package is designed to allow returning families to relocate themselves in their village of origin and to cover initial food and basic shelter needs until they can resume economic activities. The UNHCR program in Sri Lanka is expected to be phased out by the end of 1989.

UPSURGE IN THE NUMBER OF VIETNAMESE BOAT PEOPLE

SENATOR INOUYE: There are disturbing reports that the first asylum program is on the verge of collapse for Indochinese refugees. These reports speak of an upsurge in the number of boat people fleeing Vietnam, and an increase in the incidents of piracy and murder being perpetrated against them. Frustrated by the overwhelming number of refugees seeking refuge across its border, the Thai military has begun pushing these poor, stateless souls back out to sea where many eventually perish.

What efforts are you making to persuade other countries in the region to increase the number of Vietnamese refugees they are willing to accept?

What efforts are you making to affect a change in Thailand's hostile attitude toward newly arrived refugees to their shores?

AMBASSADOR MOORE: The U.S. Government has been in the forefront of efforts to defend and promote the principle of first asylum in Southeast Asia in recent months. Since the disturbing events of earlier this year, the interdiction and pushoffs of Vietnamese refugee boats, we have made numerous representations to the most senior levels of the Royal Thai Government (RTG). In April our Ambassador to Thailand received a letter from Foreign Minister Siddhi which reaffirmed previous Thai assurances that first asylum remains intact.

We have also been in close contact with the governments of Malaysia, Indonesia, and Hong Kong, and asked for their cooperation in ensuring that first asylum is available to all who seek it. We have asked all governments in the region, as well as the other major resettlement/donor countries to press the government of Vietnam to expand the Orderly Departure Program so that those wishing to leave are not forced to resort to clandestine departure.

We expect that refugee issues will be prominently featured on the agenda of the upcoming ASEAN Post-Ministerial Conference. Secretary Shultz, head of the U.S. delegation, will once again reiterate the U.S. Government's position that first asylum must be preserved by all countries in the region. In addition he will reassure the refugee-receiving countries of the U.S. Government's commitment to maintaining generous levels of resettlement offtake in the future.

CAMBODIAN REFUGEES IN THAILAND

SENATOR INOUYE: I have read in your prepared statement that despite the encouragement of our Government, the Government of Thailand has failed to make specific improvements in refugee protection and security at Site II, a sprawling camp of 160,000 Cambodians two miles inside the Thai border. The Committee drew specific attention to the problems at Site II in its report last year when it noted the incidents of extortion, rape, murder, and torture were "commonplace."

Why has the Government of Thailand not responded to the desperate conditions existing at Site II?

What actions are you taking to press the Thai Government to make changes in the way it handles Cambodian refugees?

Have the conditions at Site II continued to deteriorate since the Committee issued its report last year? If so, please describe.

AMBASSADOR MOORE: We share the Committee's deep concern about the security situation at Site II. The Royal Thai Government (RTG) has responded to some of our concerns but, there is still much room for improvement. Encouragingly, some reforms are underway. Earlier this year, the RTG agreed to the creation of a specially trained Displaced Persons Protection Unit to patrol the perimeter of Site II. The United Nations Border Relief Operation (UNBRO) has funded the creation of this unit, in part with a contribution from the U.S. Government. UNBRO informed us that by mid-July four of these units, including one composed exclusively of female officers, will be in place. We are hopeful that this latter unit will be more effective in monitoring the security of women and children than its predecessor, Task Force 80.

We continue to press the RTG on the need to maintain an overnight international presence at Site II. The RTG insists that primary responsibility for internal security at Site II rests with the Khmer leadership and has agreed to pursue more extensive training of Khmer police and the development of neighborhood watch responsibilities.

Crime in the vicinity of the camps, including crime associated with armed Khmer bandits, continues to be a concern. Recent UN and ICRC reports to the international donor community cited domestic violence as a primary security concern within the camp. Our Embassy reported recently the view among Khmer camp administrators, voluntary agencies and international agency representatives that this type of violence has been on the rise in recent months, due to crowding, lack of water and increased frustration among Khmer over their future. The lack of a coherent Khmer administrative structure which can enforce rudimentary regulations also contributes to these problems.

In our view Site II's problems will become manageable only if and when the camp is split into smaller sections with centralized civilian leadership. Although the Thai have agreed in principle to split the site, there has been little progress in identifying an acceptable area for relocation of part of the current population. I intend to press the Thai on this and other points related to Site II security when I visit Bangkok in early July.

We are grateful for the Committee's support of our goal to improve security at Site II and assure you that we will continue to make forceful representations to the RTG on this and other points related to Khmer protection.

EDUCATION OF CAMBODIAN REFUGEES IN THAILAND

SENATOR INOUYE: For 4 years this Subcommittee urged you to fund education programs at the refugee camps in Thailand, particularly at Site 2. In our report last year we noted "the apparent reluctance of the Department of State" to provide funding for them. As a result, we earmarked $3 million for education programs in Thai refugee camps and directed in our report that the funds be spent for materials and teaching personnel.

What have you done to comply with the congressional directive to provide educational opportunity for refugees in the Thai border area?

What type of education do you plan to provide and will this education provide training in the area of basic human needs so that Cambodians returning to their homeland will be increasingly self-reliant?

AMBASSADOR MOORE: As the Committee is aware, the Department of State does not directly implement refugee relief and rehabilitation projects. The Administration is firmly committed to the principle that refugee relief efforts must be of a multilateral nature. Therefore, the vast majority of U.S. Government support for refugee assistance programs has traditionally been channeled through international organizations. This is certainly the case in Thailand, where the $1.5 million in Congressionally earmarked funds included in the Continuing Resolution for FY 1988 for the education of border Khmer have been pledged to the United Nations Border Relief Organization (UNBRO). By restricting our contributions to UNBRO we promote the development of apolitical education programs which do not favor any one Khmer group, an important consideration given the volatile nature of intra-Khmer relations along the border.

The Embassy in Bangkok, as well as the Department of State, continue to work closely with UNBRO to ensure that U.S. Government contributions are put to the best possible use. At a recent donors meeting UNBRO reported that it is developing a series of community development and social service programs which will include early childhood development and pre-school literacy, adult literacy, training of medical personnel, vocational training in agriculture, environmental hygiene and other skills which will help foster Khmer self-reliance. All these proposals must be approved by the RTG before UNBRO can proceed with their implementation.

UNBRO's primary education staff at Site II has also been strengthened considerably in recent months. The number of teachers has now been increased to 740, and UNBRO believes that it will achieve its goal of producing 1500 qualified teachers within the next two years. In addition, work continues on the expansion of the existing curriculum, more textbooks are being printed and teaching materials purchased.

Unfortunately, UNBRO's proposal for comprehensive secondary education is still pending with the Thai National Security Council. We continue to press the Thai for early approval.

Education has been a continuing theme of all U.S. discussions with the Thai on border issues, and the Thai know well our position in favor of expanded programs. We are disappointed by the apparent Thai reluctance to proceed with secondary education programs, but we will continue to press the issue at every opportunity.

REFUGEE INFLUX IN SOUTHEAST ASIA

SENATOR INOUYE: I am greatly disturbed to read in The Washington Post this morning that the prowestern countries of Southeast Asia are showing a deep reluctance to provide asylum to additional refugees from Vietnam and Cambodia. In addition to political repression, deteriorating economic conditions in Vietnam have been responsible for this new surge in refugees which has placed a great strain on the countries of the region.

Do you view these latest refugees from Vietnam and Cambodia as economic or political refugees?

Have you communicated to the prowestern countries of Southeast Asia the outrage of the United States Government that boatloads of refugees are being turned away from their shores and denied the minimum humanitarian relief required of civilized nations?

AMBASSADOR MOORE: It is impossible to determine if the majority of recent Indochinese asylum seekers are political refugees or economic migrants in the absence of detailed interviews. We speculate, however, that many of these new arrivals would qualify for resettlement under U.S. criteria.

The U.S. Government has made clear to the first asylum nations of Southeast Asia our deep concern that they continue to offer safe haven to all who seek it. Our Embassy in Bangkok has forcefully protested all reports of push-offs and interdictions that have come to our attention. Our views have been made known to the most senior levels of the Royal Thai Government.

We have received occasional reports of push-offs occurring in Indonesia, but Indonesia has repeatedly reasserted its commitment to first asylum in response to our inquiries about these incidents. Malaysia also has reiterated its commitment to first asylum.

We share the Committee's concern that the refugee-receiving countries not waver on their commitment to first asylum. We will continue to drive this point home at every opportunity. Secretary Shultz intends to reiterate our views to the ASEAN foreign ministers when he meets with them in Bangkok in early July.

RENAMO

SENATOR INOUYE: I have been disturbed to read increasingly graphic reports of the way in which the force of RENAMO, supported by South Africa, have waged a war of terror against the civilian population of Mozambique. Their wanton destruction of villages, their seizure of property, and their starvation, enslavement and execution of women and children are frighteningly reminiscent of the horrors committed by the Khmer Rouge in Cambodia in the mid-1970's.

What programs has the Department of State instituted to ease the plight of refugees from Mozambique--to encourage neighboring countries to provide a safe haven?

AMBASSADOR MOORE: The Bureau for Refugee Programs has contributed to date in FY 88 $4.4 million to the special appeal by the United Nations High Commissioner for Refugees (UNHCR) for Mozambican refugees in Malawi, in addition to a $33.4 million contribution for UNHCR's General Appeal for Africa which includes assistance to Mozambicans in Tanzania, Zambia, Zimbabwe, and Swaziland. The U.S. is also contributing food aid to Malawi for both refugees and Malawians. In FY 88, some 29,000 MT of USG donated corn has gone to refugees in Malawi with an additional 45,000 MT for Malawians. In Zimbabwe, our AID mission has offered to provide local funds to assist the UNHCR and the government to open a fifth refugee camp for Mozambicans and to create reception centers for new arrivals.

In response to allegations that some countries in the region were involuntarily repatriating Mozambican refugees, the Bureau for Refugee Programs requested that a consultant study the causes of refugee flight in the area and the reception of the refugees by neighboring countries. The results of the consultant's report showed that both voluntary and involuntary returnees faced great dangers upon their return to Mozambique.

We have shared that report with the leaders of the countries that surround Mozambique and have received assurances from all countries except South Africa that refugees will not be sent back against their will.

MALAWI: MOZAMBICAN REFUGEES

SENATOR INOUYE: A report compiled by Malawi's Red Cross said there could be about 600,000 Mozambican refugees in Malawi in 3 months' time. I understand that in March Mozambicans were fleeing into Malawi's southern Nsanje (SANGEE) district at the rate of about 320 a day. The U.N. High Commissioner for Refugees estimates that there will be about 550,000 refugees in Malawi by the end of the year. Malawi Government officials say there are 200,000 in Nsanje alone, 50,000 more than the local population.

Does your FY 1989 request of $64 million for African assistance programs, with $44.5 million of that amount going to the U.N. High Commission for Refugees, take into account this mounting crisis?

What are other governments doing to meet this exceptional refugee situation in Malawi?

AMBASSADOR MOORE: It is of course impossible to predict each individual refugee crisis in Africa with precision at the time a budget is prepared, although general needs can be expected to lay within a certain range. While some situations, such as Uganda and Chad, have improved, I do have to say that the situations of Mozambican refugees in Malawi and that of Sudanese refugees in Ethiopia are worse than we expected when this budget was prepared.

The UNHCR is the primary organization delivering assistance to the refugees in Malawi and the vehicle by which the U.S. and most other western donors channel refugee assistance worldwide. It is appropriate that most of the USG funds for managing this crisis be contributed to that organization.

Other governments have responded as well to the UNHCR's 1988 appeal for assistance to Mozambican refugees in Malawi. That $14.7 million appeal has been fully funded and the UNHCR expects to issue a new appeal for these refugees in the near future.

Governments and national Red Cross societies have also supported relief efforts of the League of Red Cross Societies and provided food aid through the World Food Program. Without meaning the list to be completely inclusive, I would cite the FRG, the U.K., the EEC, Japan, Canada, and Australia among the top donors along with the USG.

ETHIOPIAN RELIEF

SENATOR INOUYE: Last month [sic - hearing was June 10, expulsion was April 6], Ethiopia ordered all expatriate relief workers out of the contested regions of the country, and requested that such organizations as the International Committee of the Red Cross turn over their food and equipment to indigenous relief groups. The U.S. Government, the United Nations and the Red Cross strongly objected to the evacuation order, arguing that western aid workers were essential to the conduct of the relief effort.

Up to last month, were international relief organizations in Ethiopia engaged in the evacuation and care of refugees from the areas of fighting? If so, how has the evacuation order issued by the Ethiopian government affected refugee evacuation efforts?

AMBASSADOR MOORE: No relief agency, international or otherwise, is or has been involved in a conscious effort to move people out of their home areas, even when these are conflict zones. Rather, the international community seeks to assist people in the places to which they may have moved on their own.

We believe that it is a mark of the success of the international drought relief effort that no significant migrations of famine victims seeking food aid have occurred, either within Ethiopia or to neighboring Sudan. Now that fighting has escalated and disrupted food aid programs, we are indeed fearful that refugee and displaced person flows will commence. However, to date, our refugee coordinator in Sudan has reported no significant influx of Ethiopians. UNHCR and the GOS Commissioner for Refugees are prepared for an influx of as many as 100,000 conflict (as opposed to drought) victims. We do have reports from our mission in Ethiopia of some 100,000 displaced persons in Asmara and Makelle. Our colleagues in A.I.D. have prepositioned materials such as blankets in Ethiopia to be used in the event of larger scale displaced person camps.

As you know, relief efforts of the International Committee of the Red Cross (ICRC) have been effectively terminated by the GPDRE order to withdraw expatriate personnel from the conflicted areas since ICRC programs are carried out in large measure by expatriate staff to ensure integrity in conflict situations. While some of the 400,000 plus who were being given food aid by the ICRC in Eritrea and Tigray are now being served by an expanded non-governmental organization effort or are now on the insurgents' side of the battle line, we are particularly concerned about some 250,000 former ICRC beneficiaries in Gondar who cannot be served by the existing relief programs in that area. Moreover, we fear that former ICRC beneficiaries in the "gray" areas of government/insurgent control may be reluctant to seek help from agencies other than the ICRC.

The disruption to food relief efforts resulting from the Government of the People's Democratic Republic of Ethiopia (GPDRE)

April expulsion order for expatriate relief workers from Eritrea and Tigray, combined with heightened fighting, however, may yet cause migrations within Ethiopia and/or to Sudan.

SENATOR INOUYE: Reports have come to my attention that intensified fighting between the government and rebel forces in Eritrea and Tigray in the past three months has disrupted the delivery of emergency food to 3.2 million Ethiopians believed to be at risk of starvation because of war and drought. We all recall that when similar conditions prevailed in 1985 and 1986, large numbers of Ethiopia began a perilous migration south, toward the capital city of Addis Ababa and west, to Sudan.

Is there a danger of this tragic migration of Ethiopian refugees being repeated in 1988? If so, what role will you be taking to help alleviate the pain and suffering of these individuals?

How many Ethiopians have sought asylum in the United States over the last five years? What assistance do you provide to assist them with the process of relocation?

AMBASSADOR MOORE: There is certainly a danger of Ethiopian refugees entering Sudan either because they have been cut off from other drought relief assistance or because the fighting makes it simply too dangerous for people to remain in their home areas. The first problem - providing drought relief to people in their home areas - is relatively more easy to address and indeed the international community has been successful so far in this regard if we use as a measure the fact that there have been no significant migrations into Sudan. I would note that the Government of Sudan (GOS) has made plain its expectation that the international community will make every effort to assist drought victims in place and preclude the need for them to move into Sudan. The GOS is also cooperating fully.

The second problem -- that of people fleeing military action -- is much more difficult, if not impossible, to prevent. The GOS has agreed that such conflict victims would have to be accorded asylum and is cooperating in UNHCR contingency planning for an influx of up to 200,000. Preparations for up to 100,000 are already in place.

There are a number of factors in refugees' potential decision to flee -- the range of conflict and whether civilians are targeted, the availability of food in their home areas, the resilience in the population in terms of capacity to suffer, the time in the agricultural cycle, rainy/dry season effect on the ability to travel, the attitude of the liberation fronts, the perception about the likely welcome in Sudan. We have been monitoring all of these factors to the degree possible and modifying those on which we can have an impact -- for example the availability of food -- in order to mitigate both suffering and refugee flows. We believe that the September to December period may be critical.

Over the last five years, from FY83 to FY87 inclusive, the United States resettled 10,024 Ethiopian refugees from Africa and Europe.

These refugees receive the same assistance in relocation as all refugees who are admitted to the United States; that is, their travel to the U.S. is funded by the USG on a reimbursable basis, they are sponsored by a voluntary agency that receives a per capita reception and placement grant from the Department of State, and they are eligible for refugee resettlement services from the Department of Health and Human Services.

ETHIOPIAN JEWS

SENATOR INOUYE: I understand that since Operation Moses ended in 1985, slightly over 400 Jews have been taken out of Ethiopia and brought to Israel.

What are you doing to facilitate the relocation of Ethiopian Jews, known as Beta Israel, who wish to immigrate.

Has either the Government of Ethiopia or Sudan shown any willingness to permit the immigration of the remaining population? What are you doing to gain the support of the international community in pressuring the Governments of Ethiopia and Sudan on behalf of the Beta Israel community in Ethiopia?

What are the most accurate estimates you have of the present size of the Beta Israel community in Ethiopia?

How has the current drought and famine in Ethiopia affected the Beta Israel community? If so, how have they been affected?

Has the Beta Israel community in Ethiopia been affected by the recent rebel-government fighting? If so, how have they been affected?

AMBASSADOR MOORE: The United States considers the right to free movement, including emigration, to be a fundamental human right. So the issue of emigration for Ethiopian Jews, particularly for family reunification purposes, is a continuing part of our diplomatic objectives with the Ethiopian government. We have also discussed these issues with our allies. Unfortunately, I cannot report any success so far in persuading Ethiopia to allow free emigration. On the other hand, I can report that the Beta Israel community in Ethiopia, which we estimate comprises as many as 20,000 individuals, has not been especially adversely affected by the current drought or conflict in Ethiopia. If you have additional specific questions, I would be happy to discuss them with you privately.

COORDINATION WITH OFDA

SENATOR INOUYE: Do you coordinate your refugee relief efforts with those of the Office of Disaster Assistance? If so, please explain in what areas your offices cooperate and the administrative division between your respective areas of responsibility.

AMBASSADOR MOORE: The fundamental distinction between the mandates of the State Department's Bureau for Refugee Programs and A.I.D.'s Office of U.S. Foreign Disaster Assistance is that my bureau deals with refugees while OFDA deals with internally displaced persons. There is a degree of overlap where internally displaced persons result from civil conflict, a manmade disaster, and where the International Committee of the Red Cross (ICRC) is involved. Funding for the ICRC's emergency and basic programs is provided from the Migration and Refugee Assistance appropriation. Where the ICRC is involved in a new or expanded humanitarian relief effort, OFDA may provide specifically earmarked funding once a disaster has been declared.

Another fundamental distinction is that U.S. refugee policy calls for a multilateral assistance approach that focuses on international burden sharing, the work of the United Nations High Commission for Refugees, and the fact that refugees -- lacking the protection of a nation state -- are protected by the international community. U.S. disaster assistance is provided on a bilateral basis to countries suffering from natural or manmade disaster.

Of course, we cooperate very closely with OFDA, particularly in Africa. If, for example, there is a situation where conflict and natural disaster such as drought are superimposed on one another and where relief efforts financed by OFDA fail, a refugee flow, with which my bureau would deal, could result. Similarly, a refugee influx may occur in a country that is suffering itself from a natural disaster, making it difficult for the country to fulfill its international obligations to assist refugees on its territory. Such is the case in Malawi where drought and pest infestations had already reduced the capacity of Malawi to feed its own citizens much less a refugee population of over 500,000. Another example is Ethiopia which has experienced a rapid buildup in refugees from Sudan. Assets made available to Ethiopia to deal with famine there - trucks and medicines for example - can also be used to help Ethiopia assist refugees.

I would also point out that we cooperate very closely with A.I.D.'s Food for Peace Office since any U.S. food commodities given for refugees are financed and managed by that office.

HEMISPHERIC MIGRATION PROJECT

SENATOR INOUYE: Beginning in fiscal year 1986, the Department of State endorsed a 3-year program to fund the Hemispheric Migration Project. Last year we noted in our report that the project had gotten off "to a slower start than was anticipated" with the Department in FY 1987 providing only $450,000 of a promised $700,000 commitment.

Do you intend to fully fund the Hemispheric Migration Project in FY 1989? If not, why not?

In light of the persistent problem of migration in our hemisphere, would you support an extension of the Hemispheric Migration Project? If not, why not?

AMBASSADOR MOORE: Subject to the availability of funds, the Bureau for Refugee Programs intends to proceed with funding assistance for the Hemispheric Migration Project in FY 1989.

From the beginning of its association with the Hemispheric Migration Project in 1982, the Bureau for Refugee Programs has urged Georgetown University to seek other, including non-governmental, funding sources and to establish links with other public and private agencies whose activities coincide with the development, labor, and institution-building objectives of the Hemispheric Migration Project. The Bureau for Refugee Programs would not wish to see the Hemispheric Migration Project come to an end. Neither is the Bureau in a position to continue to be the sole or primary source of funds for it. To the extent that the Hemispheric Migration Project could develop alternative funding sources, the Bureau for Refugee Programs would be more supportive of an extension of the project.

REFUGEE ACUTE MEDICAL CARE

SENATOR INOUYE: Currently, there are several dozen Soviet citizens awaiting permission from their Government to travel to the United States for treatment of acute medical condiditons. During recent high level meetings between our two governments, the President, Secretary Shultz, and many officials of the State Department have interceded with the Soviets on behalf of these individuals, many of whom will die if they do not receive prompt care. A number of prominent medical institutions in this country have generously offered their services on a humanitarian basis even though the care promised to be expensive.

What assistance does your agency provide for individuals requiring acute medical care in the United States, but who choose to settle elsewhere?

Is there any account through which American medical institutions might be reimbursed for services rendered to refugees who choose to settle in a third country?

What private voluntary organizations provide funds for medical contingencies arising from humanitarian refugee care in the United States?

AMBASSADOR MOORE: The Department of State has no funds to assist with the cost of medical care for any private individual. We issue nonimmigrant visas to qualified a;ocamts wjp cam rpve tjat tjeor ,edoca; care om tje Imoted States will be paid for out of private funds. Immigration law (212(a)15) forbids the issuance of a visa to anyone who may become a public charge. Persons admitted to the United States as refugees qualify for medical benefits under the same criteria as US citizens or permanent resident aliens.

AFGHANISTAN

SENATOR INOUYE: AID's humanitarian assistance program for war-affected Afghans has expanded from an initial $8.3 million in fiscal year 1985 to $45 million in fiscal year 1988. Its objectives are (1) to enable the Afghan resistance and the population it protects to continue living in Afghanistan, and (2) to strengthen the capacity of the resistance Alliance to provide humanitarian goods and services and, ultimately, to perform the civil functions of government. The program consists of a commodity export project and sector projects in education, health, and agriculture. Because of the conflict in Afghanistan, AID has been unable to directly monitor the end use of this assistance.

To what extent has the program achieved its objectives?

To what extent has AID been able to provide assistance under each sector project through the resistance Alliance. Have the Alliance parties uniformly participated in the projects?

In anticipation of a complete Soviet withdrawal from Afghanistan, what initial plans does AID have to continue to provide humanitarian assistance through the resistance Alliance parties and how will such assistance be coordinated with the programs of international relief and refugee organizations?

AMBASSADOR MOORE: This question should be referred to AID.

LEVEL OF ADMINISTRATION COMMITMENT

SENATOR INOUYE: We have heard a great deal from the Administration on the horrors of narcotics use, the corroding affect it has on the individual and the family, the crime and violence it engenders, and the cost it imposes on our national economy. If we could just stem the flow of drugs into our country, the President has told us, we will have won a large portion of the battle.

How can you ask us to believe in the sincerity of an Administration which backs up its bold rhetoric with such a pitifully small, $2.5 million increase in funding, for international narcotics control over last year's level?

MS. WROBLESKI: The administration is very sincere about the international narcotics control program and is requesting a budget which it currently feels can be effectively spent.

TOTAL ASSISTANCE TO THE BAHAMAS

FY 1989 (Request)	$60,000 (IMET only)
FY 1988	$50,000 (IMET only)

COST OF FULL-PAGE ONE-DAY ADVERTISEMENT

New York Times	$43,452.36
Washington Post	$34, 452.00

SENATOR INOUYE: On May 10, a full-page advertisement paid for by the Commonwealth of the Bahamas appeared in The Washington Post and ran nationally in The New York Times. The advertisement carried a banner headline declaring that the Bahamian Government was "Setting The Record Straight" on accusations of its involvement in illegal narcotics trafficking. It carried the signature of the country's Attorney General and ended with a quote from the poet, Longfellow, exhorting the people of the United States to have faith in the Bahamas. "Give us the tools and we will finish the job," the Government stridently declared to the American taxpaying public!

Well, we have given the Bahamas "the tools." In fiscal year 1988 the tiny islands of the Bahamas received $50,000 in assistance from the taxpapers of the United States. In fiscal year 1989, the Administration is requesting $60,000 in total U.S. assistance for the country. This is most curious, however, since I understand that this one-day advertisement in The New York Times cost $43,452.36. This one-day advertisement in The Washington Post cost in the neighborhood of $34,452.00.

Are the taxpayers of the United States being asked to pay for a public relations campaign carried out by the Bahamian Government?

MS. WROBLESKI: The costs of the May 10, full-page advertisements to which you referred were not paid from funds provided by the United States Government to assist the Bahamian Government in strengthening its narcotics control programs. Nonetheless, our Embassy in The Bahamas pointed out to the Bahamian Government the inconsistency in that government's position when on the one hand it requests USG assistance and on the other can afford to expend large sums of money on paid advertising. It was apparent that the Bahamian Government felt compelled to use the advertisements as an expedient medium during a critical stage in the certification process to explain its position on the level of narcotics cooperation between that government and the U.S. Government.

I would like to point out that in fiscal year 1988, INM will be providing over half a million dollars in anti-narcotics assistance to The Bahamas which is largely targetted to strengthen capabilities of Bahamian law enforcement agencies to investigate drug cases, apprehend drug traffickers and interdict narcotics shipments. In fiscal year 1989, INM assistance is likely to approach one million dollars. In conjunction with joint interdiction operations in The Bahamas, the U.S. Coast Guard, the Drug Enforcement Administration, the U.S. Customs Service and the Department of Defense make substantial contributions to the drug war in The Bahamas.

SENATOR INOUYE: The State Department's International Narcotics Control Strategy Report for 1988 notes that the Commonwealth of The Bahamas is a major transit country for cocaine and marijuana entering the United States. United States law enforcement agencies have estimated that 50 to 60 percent of all the cocaine and marijuana that enters the United States either transits Bahamian territory or is transshipped in The Bahamas. At the same time, the report notes that narcotics-related corruption continues to be a problem in the Bahamas.

What progress have the authorities made during the last year to reduce the level of narcotics-related corruption in The Bahamas and bring alleged offenders to justice?

What progress has been made on a new extradition treaty between The Bahamas and the United States?

Why has the United States shown little interest in the suggestion by Bahamian Prime Minister, Sir Lynden Pindling, for a reciprocal drug enforcement accord similar to the one recently signed with Great Britain? (FBIS May 16, 1988, 1)

MS. WROBLESKI: The police anti-corruption unit reportedly has investigated forty cases of suspected corruption among law enforcement officers. Of these, approximately twenty-five have been completed and less than six people have been formally charged. The Bahamian Attorney General is pursuing the investigations aggressively and he continues to ask the DEA and the Department of Justice to provide him with any additional evidence of official corruption.

Widespread allegations continue to exist about narcotics-related corruption among relatives of senior government officials and government officials on the outlying islands of The Bahamas. The scope for investigations by the police anti-corruption unit is limited to suspected law enforcement officials.

A narcotics enforcement unit is being created which will ultimately have a staff of 270. INM is underwriting DEA training for this unit and helping to provide it with equipment. When fully functional, the unit should greatly enhance Bahamian capabilities to perform narcotics investigations and drug interdictions.

The U.S. and The Bahamas are nearing completion of negotiation of a new extradition treaty. There are a few outstanding issues which the parties hope to resolve in the next round of negotiations.

With regard to your question about the reciprocal drug enforcement accord between The Bahamas and Great Britain, we have informed the Bahamian Government that we anticipate that the recently signed Mutual Legal Assistance Treaty should address this subject adequately. That treaty is currently awaiting Senate advice and consent.

SENATOR INOUYE: I notice that in your congressional presentation you plan to reduce funding for many countries in the International Narcotics Control Program. Jamaica will receive $1 million less in FY 1989 than it did in FY 1988, Colombia will receive $1 million less in FY 1989, Thailand will receive $100,000 less in funding and Burma will remain at the same level as last year, $7 million. In fact, total country programs are slated to receive a $4 million cut in funding over FY 1988 levels.

Please explain to the American public how you can reduce funding in Colombia, Thailand, and Burma, three of the largest drug producing nations in the world and then claim you are engaging the enemy in the drug war?

What is to prevent drug lords from seeing this retreat by the Administration as a signal to return to business as usual in the "Golden Triangle" of Southeast Asia and Latin America?

MS. WROBLESKI: The total country program request for FY 1989 is $91,600,000 which is an increase of $2,750,000 over the FY 1988 request. This increase was primarily allocated to the Interregional Aviation Support program which provides aviation assistance for manual and aerial eradication, and interdication operations to cooperating countries. The reduced funding in Colombia resulted from the anticipated pipeline of parts and support equipment procured in late FY 1988 for delivery in FY 1989. In Thailand, while our budget indicates a cut of $100,000 there has been an increase in the enforcement project and a decrease in the crop control project. These adjustments are in line with our current program plans. The reduction in the Jamaica budget was predicated on the assumption that aviation support would be provided from the INM Airwing.

PROPOSED ENFORCEMENT AND INTERDICTION CUTS IN FY 1989

SENATOR INOUYE: At a time when our nation is mobilizing to curb the flow of narcotics into the United States, you have taken an apparently opposite approach by recommending cuts in programs vital to this effort.

Why have you proposed a cut in funding for Enforcement Assistance and Interdiction from $35,210,000 in FY 1988 to $35,059,000 in FY 1989?

Why have you proposed a cut in the Training and Demand Reduction program of $500,000 in FY 1989 -- from a level of $5.5 million in FY 1988 to just $5 millin in FY 1989?

MS. WROBLESKI: The INM budget does not propose a cut in funding for Enforcement Assistance and Interdiction by $150,000 and Training by $500,000. This is actually a shifting in funds from enforcement to crop control brought about by the earmarking of FY 1988 funds for Bolivia and Latin America Regional and the shortfall of funds for the Interregional Avaition Support Program.

UNITED STATES INTERNATIONAL NARCOTICS CONTROL STRATEGY

SENATOR INOUYE: 1987 was a disappointing year in the United States' efforts to bring the foreign production of narcotic substances under control. Opium production increased by 19 percent, coca by 6 percent, and marijuana by 16 percent. Reductions in some of the major producing countries receiving U.S. assistance have been disappointing. While Bolivia is reported to have eradicated 1,000 hectares of coca plants, production has increased. Production increases were also noted in Mexico, Burma, Thailand, Colombia, and Peru, and almost all other producing countries.

On February 2, 1988, the Secretary of State said that the United States is completing work on a new national nearcotics strategy, including a strengthened international program in which chemical destruction of coca plants will be emphasized.

Could you tell us in more specific terms what new strategies the Department of State intends to pursue in its international program to control and production and trafficking of narcotics?

Given the lack of progress in recent years, why does the Department believe this new strategy will be any more effective than prior strategies?

MS. WROBLESKI: The International Narcotics Control Strategy and Implementation Plan, submitted to the National Drug Policy Board, puts forth six goals: Reducing the supplies of (1) cocaine, (2) heroin and (3) marijuana coming to the United States; (4) launch a worldwide public diplomacy campaign to sensitize foreign governments and populations to the dangers of narcotics production, trafficking and abuse; (5) eliminate narcotics trafficking networks; and (6) gain increased international cooperation on narcotics control. While the strategy itself does not depart significantly from our past strategies, it does set forth specific program objectives, targets, milestones and measures of effectiveness to better gauge success in international narcotics control efforts. We have suggested two new approaches; we suggest that the concept of a "superfund" be explored, and for the first time we have proposed a coordinated public diplomacy campaign.

Inclusion of specific milestones and targets provide a measure of accountability that was missing from past strategies; we believe this will allow us to manage our international programs more effectively than we had in the past.

UNITED STATES NARCOTICS CONTROL PROGRAM IN BOLIVIA

SENATOR INOUYE: For the last several years the United States has been trying to make the U.S. - Bolivia coca control program more effective. Success, however, has been slow. Targets established have been repeatedly changed, and it is not clear whether current targets can be met.

Bolivia has legislation banning coca production under consideration, but has yet to enact such a law. Also, despite eradication efforts, new hectares placed under cultivation in 1987 far exceeded the small 1,000 hectares voluntarily eradicated. Hectares under cultivation increased from 36,800 in 1986 to 39,300 in 1987, a 2,500 hectare increase.

What are the prospects for a more effective coca crop control program in Bolivia in 1988, and will Bolivia enact the needed legislation to ban coca cultivation?

Will Bolivia more vigorously enforce its laws against production and trafficking of coca paste, and when will it extend the involuntary eradication of coca cultivation?

MS. WROBLESKI: The prospects for an effective voluntary coca eradication program depend principally on two things: keeping the price of coca leaf near or below the cost of production (about $30 per hundredweight) and the Bolivian Government's performance in promptly providing cash payments to participating farmers. In the past six months, the first condition has been met and indicators are that the price will remain low due to both the coca glut and the growing effectiveness of Bolivia's enforcement efforts. We have been working closely with the Bolivian Government to get the cash payment system working in an expeditious fashion, and it appears that the problems experienced in the past four months have been resolved. Therefore, we believe that the prospects are good for continued voluntary eradication of some 500 hectares per months, to be supplemented by some forced eradication of seedbeds and coca in outlying areas.

It is essential that the Bolivian Congress enact a narcotics law that outlaws all coca cultivation used in the manufacture of cocaine, and on the basis of the current legislative debate in La Paz, we believe there is a good possibility that such a law will be passed. We also consider it essential that Bolivia establish annual benchmarks for eradication and fully comply with them. In addition, we are urging Bolivian leaders to include forced eradication in the law, at minimum the forceable eradication of new cultivation and nurseries.

Regarding Bolivia's performance on enforcement, several factors cause us to be guardedly optimistic. So far this year the UMOPAR has destroyed three HCL laboratories, one base lab and some 500 paste pits. While not much HCL or base has been seized, they have seized over 2000 kilos of paste. Additionally, the UMOPAR have been instructed to destroy all precursors seized in the Chapare, and for the first time in Bolivia, three large pieces of land in the Beni on which HCL labs were found have been seized by the Government. One of these will be used to build a forward operational base.

While progress is slow, we believe the government is more vigorously enforcing its laws against production and trafficking and that, due in part to the extensive training given to the UMOPAR troops over the past year, the effectiveness of UMOPAR is increasing.

SENATOR INOUYE: The United States narcotics control program in Bolivia recognizes the need to control river traffic in areas where chemicals required to process coca into cocaine and the finished coca product are moved. The March, 1988, International Narcotics Control Strategy Report mentions that eight Boston Whaler "Piranha" boats were provided to Bolivia in 1987 for that purpose, but that an operational plan and memorandum of understanding were not worked out with the Bolivian Navy until December, 1987.

Is such an operational plan now in effect, and what success has this program had to date?

MS WROBLESKI: The riverine interdiction unit of one mothership and five Piranha river craft was officially inaugurated in Trinidad on March 29. Interdiction efforts have been disappointing to date. Despite numerous short-range patrols from the Naval Base in Trinidad and one longer patrol in late April involving the mothership and three Piranhas along the Mamore River and tributaries, there have been no seizures and no arrests. However, about 1000 liters of kerosene and five radios were confiscated. Greater experience in small boat operations and efforts to improve operational targetting may result in greater effectiveness.

THE COST EFFECTIVENESS OF AWACS SURVEILLANCE

SENATOR INOUYE: I understand that the Air Force has employed six AWACS radar surveillance planes in the nation's war on drugs. AWACS crews flew 3,983 hours on drug interdiction missions last year at a cost of about $35 million or $9,000 per hour. The result of this effort was two drug busts. I am told that so far this year, the Air Force has flown about 300 AWACS drug-spotting sorties and has yet to catch a single narcotics smuggler. (L.A. Times, 5/29/88,1)

I understand that the Department of Defense has estimated that 110 AWACS aircraft would be needed to seal United States' borders against drug traffic. Currently, the Air Force has 34 such aircraft, with none to be added to the inventory. (AW&ST, 5/23/88, 25)

How can you justify the continued use of these aircraft in narcotics control efforts when they have proved so ineffective, and when the resources committed to their operation could be better spent elsewhere?

MS. WROBLESKI: It would be appropriate for you to direct this question to the Department of Defense.

NARCOTICS CONTROL AND MEXICO

SENATOR INOUYE: In January, 1987, the GAO reported that Mexico again has become a primary source of the heroin and marijuana available in the United States. The United States and Mexico have spent more than $118 million since 1984 to support a bilateral aerial eradication program which is eradicating less than 40 percent of the opium poppy and marijuana fields cultivated in Mexico. GAO reported that the gap between cultivation and eradication will widen unless the program is improved. GAO recommended that the Department of State renegotiate its agreements with the Government of Mexico so they will include provisions for developing aerial surveys of illegal cultivation, setting annual eradication goals consistent with reasonable standards for aircraft use and availability, and validating and evaluating program results. (GAO/NSIAD-88-73)

What specific actions has the Department of State taken to implement the GAO recommendations?

Has the Mexican Government cooperated fully with the Department of State in resolving the problems noted by the GAO?

MS. WROBLESKI: In January 1988 the GAO filed a report titled "Drug Control: U.S.-Mexico Opium Poppy and Marijuana Aerial Eradication Program" to the Congress. Three recommendations were made. We have complied with one of the recommendations and are working on compliance with the remaining two.

The first recommendation asks that we negotiate with the Government of Mexico formal agreements including provisions for developing aerial surveys of narcotics crops, setting annual eradication goals consistent with reasonable standards for aircraft use and availability, and validating and evaluating program results. The U.S. Government will be proposing these items to the Government of Mexico as a part of a separate Letter of Agreement which will also respond to the requirements of Section 585 of the FY 1988 Continuing Resolution (the Chiles Amendment).

The GAO's second recommendation states that the INM Assistant Secretary should negotiate with the GOM to assign responsibility for (1) determining maintenance requirements, (2) procuring and distributing spare parts, and (3) ensuring physical security of on-hand inventories. It was further recommended that the next maintenance services contract provide the contractor with sufficient authority to fulfill the responsibilities it is assigned. The recently signed aviation maintenance contract between the Mexican Attorney General's Office and Bell Helicopter together with the exchange of letters obligating International Narcotics Control funds for the contract provide that the contractor is to procure spare parts and that the PGR is to determine maintenance requirements and to distribute and ensure the physical security of on-hand inventories of spare parts.

Finally, the GAO recommended that the Secretary of State not request funding to purchase aircraft for use in the Mexico program unless the Department of State has determined (1) the eradication capability of the present air fleet if used in accordance with reasonable standards for use and availability and (2) the number and type of additional aircraft needed for total narcotics crop control. The Mexico City Embassy's Narcotics Assistance Unit has indicated that the necessary study will be accomplished this year. There are no immediate plans to request funding to purchase aircraft for the Mexico program, however.

ELI LILLY DISPUTE

SENATOR INOUYE: Assistant Secretary Wrobleski, I understand that you have mounted a strong effort to persuade the pharmaceutical manufacturer, Eli Lilly and Company, to resume the production a herbicide needed to eradicate cocaine-producing coca crops in South America. Recently, you were quoted as saying that you were prepared to seek emergency legislation to compel Eli Lilly to sell the Government the herbicide tebuthiuron.

Do you think that it would be wise to set the precedent that whenever it disagrees with a business decision made by the private sector, the Federal Government will seek legislative relief? What sort of legislation were you hoping to obtain?

Have you ascertained precisely why Eli Lilly and Company does not wish to sell its herbicide to the United States Government?

How would the Government's eradication effort be affected if this chemical herbicide were not available? Are there any equally effective substitutes?

MS. WROBLESKI: Although we have discussed the idemnification issue with Eli Lilly, Inc., we do not believe full indemnification would be a good precedent to set. Our bureau purchases a large amount of equipment and supplies from a number of vendors in support of our overseas programs. The same issue raised by Eli Lilly could easily be applied to the other vendors, particularly aircraft firms. While we are responsible for any accidents we cause, full indemnification or insurance would place a heavy financial burden upon the USG. We do not believe full indemnification should be provided to companies who provide products warranted to be safe.

We may, depending on the outcome of ongoing tests and final selection of a manufacturer, seek legislation to compel a manufacturer to sell us its chemical. Such legislation could draw upon USG national security authorities. It may, or may not, include provisions for indemnification.

We believe Eli Lilly will not sell their product to us because corporate management is concerned about the safety of company personnel in the U.S. and Latin America, as well as potential lawsuits, both being situations Lilly officials believe would be intensified by the publicity inevitable in an association with our program. Although we believe security always presents a problem, past experience has not demonstrated that there have been problems with US companies abroad which provide our bureau with chemicals or equipment for narcotics control. We are willing to work with Lilly regarding their security concerns.

To date, herbicide experts within the USG and with private universities and institutions have indicated that tebuthiuron appears to be the most effective product to control coca. The chemical is registered in the US, where it is primarily used for rangeland management; overseas the product is used to control competing vegetation in sugar cane fields.

Limited field tests to date in Peru have been extremely encouraging; grasses, coffee and papaya have been sucessfully reestablished in the treated fields. The chemical has low human toxicity, is selective in that it does not kill grasses, and can be applied in granular form, limiting the possibility of undesirable spray drift. Although we are evaluating a number of other products for coca control, it is premature to conclude that they will be effective and safe for coca control.

COLOMBIAN NARCOTICS CONTROL EFFORTS

SENATOR INOUYE: Ms. Wrobleski, we Americans have a bad habit. We often look to others as the sources of our problems. We chastise others for failings which we do not recognize in ourselves.

In matters relating to narcotics abuse -- drug trafficking and drug addiction -- we look to foreign producer countries and criticize them for not doing enough to control illicit narcotics production. We strongly condemn their ineffectiveness and restrict or terminate our aid programs.

I would like the record to show that this Subcommittee recognizes the sacrifices that are being made by the Governments -- and the people -- of countries which find themselves to be the victims of the drug lords and who, despite their poverty and despite the presence of corruption and venality at top levels of their governments, do make strenuous efforts to curb illicit drug production and trafficking.

I wonder, would the United States truly become serious about a war on drugs if our Attorney General, our Minister of Justice, members of our Supreme Court, and our Senators, Judges, Prosecutors and hundreds of our policemen and citizens had been killed by drug traffickers? Colombia has experienced all of these and yet, despite its many failings, continues to combat illicit narcotics trafficking.

Do you have any thoughts on this matter?

Is Colombia making an effort to control the drug traffickers?

Are there countries where drug trafficking continues because the drug lords are too powerful for the Governments to control?

MS. WROBLESKI: We are fully cognizant of the sacrifices and resources that have been committed by the countries of Latin America and Asia in order to fight drug trafficking and abuse. Our embassies abroad work closely with host governments to ensure that both U.S. and host country resources are combined for maximum effectiveness in eradicating drug crops, and interdicting refined drugs and precursor chemicals.

Colombia is one of those countries which has made a sincere, strong effort to fight drug trafficking, despite a dangerous and multi-faceted insurgent threat to Colombian democratic institutions spurred by the corrupting influence of Medellin drug money. The Department has observed some progress in the efforts being made.

Recently, the Colombian military has coordinated anti-narcotics operations with the National Police, together netting over 8 metric tons of refined cocaine since January, seizing major trafficker properties and investments, as well as driving the major trafficker figures underground for fear of being captured. These efforts reinforce our impression that the Colombians remain committed to the interdiction and eradication of narcotics despite the lack of a cohesive overall government anti-narcotics policy.

Although drug traffickers exert a powerful constraining influence on the functioning of democratic governments, we do not know of a democratic nation where the traffickers are too powerful for the legitimate government to control. Even in a severe situation, such as in Colombia, the government continues to make headway against narcotics trafficking, while maintaining control over the political, economic and social facets of Colombian life.

MILITARY INVOLVEMENT IN THE DRUG WAR

SENATOR INOUYE: Recently, Congress voted overwhelmingly to employ the military in the drug interdiction effort. In addition to manning the reconnaissance planes that keep a lookout for border penetrations, members of the military will now be permitted to work closely with law-enforcement agencies and if necessary, arrest civilians.

Will military personnel be receiving any training in the apprehension of drug suspects in accordance with the due process standards applicable in civilian society?

MS WROBLESKI: This question should be referred to the Department of Defense.

ENCOURAGING GREATER ANTI-TERRORISM EFFORTS

SENATOR INOYUE: In your Report to Congress last year you stated that your plans for FY 1987 and FY 1988 included encouraging Morocco, Spain, Kenya, Indonesia, and India to participate in the anti-terrorist programs of your office.

What success have you had in meeting your target of developing a working anti-terrorism relationship with Morocco, Spain, Kenya, Indonesia, and India?

MR. BREMER: We expect to develop initial relationships with Morocco and Spain during FY 1988. Due to relative priorities, funding, and other considerations, we have not had the opportunity to approach Kenya, Indonesia, and India to encourage their participation.

CURRENT ANTI-TERRORISM PROGRAMS

SENATOR INOYUE: I notice that in your congressional presentation for fiscal year 1989 you list your current programs as including: Program Management, Executive Seminars, Training Assessments, Training and Equipment.

Why do you not have any programs which involve the sharing of intelligence on terrorist suspects or their activities?

MR. BREMER: The Anti-Terrorism Assistance Program does not have any responsibilities or functions involving the collection and/or sharing of intelligence relating to terrorist suspects. The collection and sharing of this information is time sensitive and these functions reside totally outside of the ATA program mission. However, the ATA Program does provide a training course in terrorism analysis.

IMPROVEMENTS IN THE ANTI-TERRORIST RESPONSE

SENATOR INOUYE: Dealing with the terrorism overseas is primarily the responsibility of the countries in which the events occur. Yet, to be truly effective in fighting this highly this scourge, law enforcement and government officials must work together across national boundaries.

What are you doing to improve the organization, technology, training, coordination, and communications infrastructure now in place to combat international terrorism?

MR. BREMER: One of the principal goals of U.S. counterterrorism policy is greater international police cooperation. We have emphasized cooperation with like-minded and effective groups of countries such as the European Community, though we also seek counterterrorism cooperation in other regions. In recent months, we have expanded our cooperation with the EC's special counterterrorism forum, known as TREVI, to include a broader exchange of information and technology to restrict the movements of terrorists and disrupt attacks. These have included measures to detect false documents, track movements, tighten the security of airports, detect and disarm explosives, and improve communications and other infrastructure. Taking full advantage of increasing opportunities for such cooperation will require close coordination between the State Department, which has the lead on foreign policy issues, and law enforcement agencies -- especially the FBI -- which have the technical expertise.

We also seek to improve the ability of other governments to control international terrorism by assisting them with training in anti-terrorist techniques through the Anti-Terrorism Assistance Program. The program provides training in the U.S. for civilian law enforcement personnel from countries (about 50 so far) with existing or potential terrorism problems and acceptable human rights records. Courses have emphasized airport and maritime security, crisis management, hostage negotiation, and detection and disarming of explosives. With respect to counterterrorism technology, the USG is engaged in an active program of research and development coordinated by the State Department, and has proposed an exchange of information on appropriate projects with several friendly countries to maximize our mutual efforts.

SENATOR INOUYE: What obstacles have you encountered within our own government to a more aggressive approach toward the countries which support international terrorism?

MR. BREMER: As with any major foreign policy initiative, there has been debate within the USG on how best to implement U.S. policy against states which sponsor terrorism as an instrument of foreign policy, while taking account of other vital foreign policy interests. This debate has forged an effective policy in this regard, which includes, among other measures, economic sanctions such as export controls. We have imposed these and other measures against states designated by the Secretary of State as repeatedly supporting acts of international terrorism. They include Libya, Iran, Syria, South Yemen, Cuba and North Korea. We have not always had the kind of cooperation from other governments that we would have liked. Other countries often have different views on the issue, especially when it comes to trade and diplomatic representation. This is an uphill battle we continue to fight.

COUNTRIES SUPPORTING TERRORISM

SENATOR INOUYE: I understand that currently Iran, Libya, Syria, the People's Democratic Republic of Yemen, North Korea and Cuba comprise the State Department's list of countries supporting international terrorism. Iraq, formerly on the list, was removed in 1982. I find it curious that Abu Nidal, one of the world's most wanted terrorists -- and the perpetrator of numerous attacks against American citizens -- can find safe haven in Iraq, yet we do not view that country as a supporter of international terrorism.

In light of Iraq's harboring of the terrorist Abu Nidal -- one of the alleged masterminds of the Achille Lauro hijacking -- what is the reason for not placing Iraq on the list of states supporting international terrorism?

MR. BREMER: Senator, I would like to note for the record that it was Abu Abbas, not Abu Nidal, who was responsible for the hijacking of the Achille Lauro. Abu Nidal was expelled from Iraq six years ago. Because of the sharp drop in Iraqi sponsorship of terrorism, the State Department made the decision to remove Iraq from the list of states sponsoring terrorism in 1982.

Abu Abbas has, from time to time, travelled to Iraq and perhaps even resided there, at least temporarily. We understand that his most recent visit there was in early May. We have expressed our concerns to Iraq over Abu Abbas' travel and will continue to monitor the situation closely.

SENATOR INOUYE: Are there any countries which you would like to see included on the State Department's list of countries supporting international terrorism which currently are not on the list?

MR. BREMER: At this time, no. However, the list is under continual review as to which countries, pursuant to Section 6(j) of the Export Administration Act, warrant a determination by the Secretary of State that they have repeatedly provided support for acts of international terrorism.

HIJACKING OF KUWAIT AIRLINES FLIGHT KU 422

SENATOR INOUYE: I understand from your prepared remarks that the Government of the United States continues to have strong differences with the Government of Algeria over their handling of the hijacking of Kuwait Airlines flight KU 422 earlier this year.

Have you made any effort to work out a regime with the Government of Algeria for handling future hijacking incidents?

MR. BREMER: During and after the KU 422 hijacking we had numerous consultations with the Government of Algeria. We expressed our relief that no additional lives were lost while KU 422 was in Algiers, and Secretary Shultz said he did not want to second guess the Government of Algeria in the difficult situation. We also clearly expressed our strong disatisfaction that the hijackers were allowed to walk away free and leave Algeria. At the Toronto Economic Summit, Western leaders condemned the hijacking and pointedly called on all countries to sign the Hague Convention, which obliges them to prosecute or extradite such hijackers. Algeria has not yet signed that Convention.

We are still concerned about terrorists and murderers being allowed to escape arrest and prosecution. Obviously such actions, especially if repeated, are going to have an adverse impact on the U.S Government and American people.

SENATOR INOUYE: Has the Government of Algeria been cooperative in sharing all intelligence information on the hijackers of flight KU 422 with our Government? If not, why not, and are you continuing to pursue this information?

MR. BREMER: The Government of Algeria has not been particularly cooperative in sharing intelligence information for reasons unknown to us. However, they are aware of our concern and our desire to obtain such information as expeditiously as possible.

SENATOR INOUYE: Do you have any knowledge of any agreement between the Government of Kuwait and the hijackers of flight KU 422 for the premature release of the 17 Dawa prisoners held in Kuwaiti jails?

MR. BREMER: We are aware of press speculation to this effect. However, given the government of Kuwait's stalwart refusal to give in to the terrorist demands over the Dawa 17, we would be astonished if such reports were true.

FRANCE - IRAN HOSTAGE RELEASE

SENATOR INOUYE: There have been allegations in the press that the French Government made substantial concessions to Iran in recent months in order to gain the release of French hostages held in Lebanon. The deal struck between the two countries may have included a promise by France to restore diplomatic relations with Iran and the repayment of loans extended by the late Shah.

Can you tell this Subcommittee what was the nature of the deal struck between France and Iran to gain the release of French hostages in Lebanon?

MR. BREMER: Although all the details are not yet known, we note that the French government has publicly thanked Iran for its assistance in arranging the release. Furthermore, the Government of Iran has taken credit for the release of the French hostages. Furthermore, France has agreed to pay off a major outstanding loan to Iran. We note that France and Iran recently resumed diplomatic relations, as well. We have noted in the past that we will be especially sensitive to developments which suggest even the appearance of a deal. We are curious as to why the Iranian government effected the release of the French hostages at that time. Press reports have speculated that a deal involving the exchange of money and arms might have occurred, but we cannot confirm this at this time.

SENATOR INOUYE: Can you confirm that Iranian businessman Manachur Gorbanifar was involved in arranging the French hostage deal with Iran?

MR. BREMER: We too have seen the press reports to the effect that he was involved.

SENATOR INOUYE: Did the French make any effort to keep our Government informed of their dealings with Iran so that American foreign policy interests could be protected?

MR. BREMER: While we do have regular consultations with France about terrorism, the Government of France did not consult with us beforehand, nor did they seek our advice in the effort to obtain the release of the French hostages.

SENATOR INOUYE: Has the French Government willingly shared intelligence information obtained from its former hostages in Lebanon with the United States? If not, why not, and have you pressed the issue?

MR. BREMER: The French Government has been helpful in sharing information from its released hostages with us. In addition, we have had direct access to some of these hostages.

RESURGENCE IN LIBYAN TERRORISM

SENATOR INOUYE: Ambassador Bremer, you were quoted in The Washington Post on June 3rd as saying that "the general assessment" within the State Department was that "the Libyans are becoming more active." The article made reference to a growing suspicion within our Government that Libyan leader Moammar Qadhafi, using the cover of Palestinian and Japanese terrorist groups, is responsible for the sudden resurgence in terrorist attacks on American and Western targets in the Middle East and elsewhere.

What new information do you have which points solidly to Colonel Qadhafi as the individual responsible for attacks against Americans?

MR. BREMER: There is strong evidence obtained by investigators making groups backed by Libya prime suspects in several recent terrorist attacks. On April 14, a car bomb went off at a USO facility in Naples which killed five persons, one of whom was American. A public claim tied the bombing to the second anniversary of the U.S. attack on Libya. The Japanese Red Army (JRA), which has had ties with Libya, is suspected of involvement.

Two days before the car bombing, a suspected member of the JRA was arrested in New Jersey carrying three homemade bombs.

On April 14, a Latin American terrorist group with a long history of ties to the Libyans, bombed a United States Information Service (USIS) binational center in Medellin, Colombia. The timing and target were consistent with the Libyan agenda.

On April 15, a U.S. Air Force communications facility near Torrejon Air Force Base outside of Madrid was bombed. Although no one has claimed this bombing, the fact that the incident against an Air Force installation occurred on the second anniversary of the 1986 U.S. air raid is sufficiently strong circumstantial evidence to at least arouse suspicion.

On April 19, a USIS binational center was bombed in San Jose. The primary suspects in the bombing were members of a group known to have ties to Libya.

On May 15, eight persons were killed -- five British and three Sudanese -- and several Americans wounded in two attacks in Khartoum. The terrorists have confessed to being members of the Abu Nidal Organization, a group presently headquartered in Libya.

SENATOR INOUYE: In light of your recent revelations concerning Qadhafi, has the Administration's policy toward state-sponsored terrorism had any success in curbing acts of international terrorism emanating from Libya?

MR. BREMER: The Administration's counterterrorism policy has helped bring to bear on the Libyans significant diplomatic and economic pressures and constraints on their operationalcapabilities. Immediately after the bombing of Libya and through most of 1987, we saw a drop in Libyan sponsored terrorist acts directed at the West. We saw Qadhafi shift away from the use of Libyans to the use of surrogates, which makes it easier to conceal his responsibility, although it may weaken his control over their actions. The sanctions imposed by the U.S. and other nations are demonstrating to Qadhafi that he cannot engage in terrorism without paying a penalty.

In recent years, cooperative efforts among European allies in the fields of intelligence and law enforcement have made it harder for Qadhafi to successfully target Europeans and American interests in Europe. We have begun to see a shift away from the hardened targets in Europe to softer targets in Africa and Asia.

SENATOR INOUYE: Ambassador Bremer, you also were quoted in The Washington Post article of June 3rd as saying that you fear there is now "a drift" in Western resolve to keep Qadhafi isolated and under both political and economic pressure to end his involvement in terrorist activities.

In what way has Western resolve toward Qadhafi begun to wane? To what do you attribute this change of heart?

MR. BREMER: Qadhafi's effort to portray himself as disavowing terrorism is just an attempt to emerge from the diplomatic isolation which resulted from Libya's terrorist actions. Qadhafi has improved relations with several Arab countries, particularly his neighbors in the Maghreb. Perhaps because of Qadhafi's effort to improve his image and relations, several countries are considering renewed diplomatic and commercial links with Libya. We do not think this is yet warranted by his actions. Qahdafi has a record of trying to improve his image and reduce his diplomatic isolation while continuing to support terrorist attacks. This was his pattern in early 1986, shortly before the Berlin disco bombing.

SENATOR INOUYE: Have U.S. dealings with Iran and Lebanese terrorists during the course of the Iran-Contra affair contributed to the apparent reluctance on the part of the Europeans to work with the United States in combatting Middle East terrorism?

MR. BREMER: Initially, we did experience a credibility problem from the fallout of the Iran-Contra affair. I do believe, however, we have now recovered our credibility and are gaining momentum in the fight against terrorism. The Iran-Contra affair did not affect day-to-day working relations and information exchanges. Cooperation in information exchanges, particularly in Western Europe, is intensifying.

THE IMPROVED TERRORIST ARSENAL

SENATOR INOUYE: Early in November, 1987, a ship carrying 150 tons of Libyan-provided arms, including surface to air missiles, bound for the Irish Republican Army, was intercepted by French authorities.

What changes in strategy have been forced upon your operations by the apparent new sophistication of the terrorist arsenal?

MR. BREMER: This incident demonstrates the need to keep under constant review our existing methods, training, and technologies to combat terrorism. It highlights the importance of research and development in new counterterrorist technologies to stay ahead of terrorists. We are engaged in a comprehensive R&D program to this end. The Department of State coordinates this interagency program, and for FY 1989 has requested an appropriation of $6 million. Unfortunately, the Senate Appropriations Committee's version of the State Department, Commerce, and Justice Appropriations Bill would eliminate the funds for this interagency program.

FOCUS ON THE PHILIPPINES, PAKISTAN, AND COLOMBIA

SENATOR INOUYE: In your prepared remarks you state that your strategic plan for FY 1989 calls for an increased focus on those countries with a high threat and strategic priority, for example the Philippines, Pakistan, and Colombia.

How would you characterize the cooperation you are receiving from the Governments of the Philippines, Pakistan, and Colombia in combatting terrorism against American citizens?

MR. BREMER: We are presently enjoying close cooperation with all three of those governments. To date, over six hundred personnel from the three countries have been involved in the ATA program.

SENATOR INOUYE: What are you doing to enlist greater cooperation among your counterparts in the Philippines, Pakistan, and Colombia?

MR. BREMER: I led an interagency mission to the Philippines earlier this year. Furthermore, cooperative arrangements with all three countries have been steadily improving recently. U.S. embassies in these countries are in daily, high-level contact with the governments of these nations to address counterterrorism issues as they arise.

WARNING OF POSSIBLE TERRORIST ATTACK AGAINST AMERICANS IN CHINA

SENATOR INOUYE: I understand from reports yesterday that the Government of the People's Republic of China has informed our Embassy in Beijing of the possibility of terrorist attacks against American interests or citizens in the country. As a precaution, the Embassy has issued a terrorist warning to all American nationals in China -- the first warning of its kind in a country considered one of the safest places for our citizens overseas.

How cooperative have the Chinese been in providing information to our Government on the possible threats to American personnel?

MR BREMER: In past instances in which we have approached the Government of China about possible threats from elsewhere, they have been cooperative in providing increased protection. Since this is the first time the Chinese authorities have issued any such warning to American personnel, it is difficult for us to judge the magnitude of the threat. The Chinese did inform us expeditiously when the threat "began" and when the threat terminated.

SENATOR INOUYE: What assistance have you offered the Chinese so they might be able to thwart threats against Americans and other foreign nationals in their country?

MR. BREMER: We have told the Government of China that we stand ready to provide it with information we receive about specific terrorist threats in China. We are interested in developing a fuller dialogue with the Chinese on counterterrorism, and in exploring areas of cooperation.

YUGOSLAVIA'S FAILURE TO FIGHT TERRORISM

SENATOR INOUYE: Mr Bremer, I am troubled by a reference in your prepared remarks to "another success" in the fight against international terrorism. I believe, your judgement as to what constitutes a "success" must be seriously questioned. On page 3, you state that:

"Colonel Hawari, the infamous leader of the Special Operations Group of the PLO, was expelled from Iraq in June, 1987. When he subsequently entered Yugoslavia illegally, he was expelled from that nation. When he reentered Yugoslavia still another time, he was deported once again."

Mr. Bremer, might I remind you that Yugoslavia is also a country which refused to honor an American request for the extradition of Abu Abbas, the mastermind of the Achille Lauro hijacking. Might I remind you that Yugoslavia was a recipient of $70,000 in U.S. assistance under the International Military Education [IMET] Account and that the Administration has requested $100,000 in new IMET assistance in FY 1989.

Mr. Bremer, how are American interests served, how are the interests of justice served, by Yugoslavia's refusal to arrest individuals accused of the most heinous crimes -- of international terrorism and piracy?

MR. BREMER: That incident occurred over three years ago, and as I noted in my testimony, we have seen a shift in Yugoslavian counterterrorism since then. We registered our strong concerns about Yugoslav actions on Abu Abbas' flight at the time. The affair dramatically drove home to Yugoslavia our concern over terrorist access to its territory. The Achille Lauro incident led to an ongoing and intense dialogue with the Government of Yugoslavia, and to greater efforts on their part to address this problem. Considering the entire Achille Lauro incident, it is a success for counterterrorism policy that the Yugoslavs have reversed their direction.

SENATOR INOUYE: Mr. Bremer, what do you see in the example of Yugoslavia that you, in your prepared remarks, can possibly see as "another success" in the war against terrorism?

MR. BREMER: It is clear today that Yugoslavia is deeply concerned about the impression that it is lax toward terrorism. Recently, the Yugoslav government has tried to improve in this matter. We believe that the Yugoslavs' resolve is now more evident and that this country is moving in the right direction. The expulsion of Hawari was one result. We will continue to monitor the situation closely and look forward to new measures by the Yugoslavs to make their country out of bounds for terrorists.

Questions Submitted by Senator Harkin

HONDURAS SITUATION

SENATOR HARKIN: Mr. Bremer, are you aware of an article in this Sunday's New York Times Magazine on Honduras. That article by James LeMoyne relates the story of a Honduran Army death squad, which murdered approximately 120 Hondurans and other Latin Americans. The LeMoyne article goes on to say:
"...between 1980 and 1984 the Honduran army, with American support, uncovered and then systematically wiped out much of the small Honduran guerrillas movement, as well as other rebel networks within Honduras supporting Salvadoran leftist guerrillas and the Sandinistas in Nicaragua. During those years in Honduras, there were no trials or lawyers to defend the accused. It was a period of rationally directed state terror against an identified enemy who was also willing to kill to change the system of government."

According to LeMoyne, the American support and training was provided by the U.S. Central Intelligence Agency, and the Death Squad, also known as Battalion 316, was head by a Honduran Army Major, Alexander Hernandez. This story is based in part on testimony by Florencio Caballero, now a refugee living in Canada and himself a former member of Battalion 316

What police training programs is the United States now conducting with Honduran security forces?

MR. BREMER: In FY 1988 the ATA program provided the following training:

Anti-terrorism Patrol Techniques (1/88)
Hostage Negotiations (1/88)
Incident Scene management (1/88)
Senior Crisis management (5/88)

We are still finalizing our training program for FY-1989.

SENATOR HARKIN: Is Alexander Hernandez, whom I understand has recently been promoted to Lt. Colonel connected in any way with Honduran Security Forces?

MR. BREMER: He is the Director of the Advanced Officers Course for the FUSEP (Public Security Force).

SENATOR HARKIN: Is it your understanding that Lt. Col. Hernandez was connected in any way with Battalion 316?

MR. BREMER: Military Intelligence Battalion 316 was formed after the period during which Hernandez was alleged to have commanded the secret unit Mr. Caballero claimed engaged in human right abuses. We have no evidence that Hernandez directed the activities of a unit that allegedly carried out "disappearances" under Argentine supervision. We are aware that Hernandez was accused of involvement in human rights abuses while head of the National Directorate for Investigations (DNI) unit in San Pedro Sula and was relieved of his position pending investigation by higher military authorities (DNI is part of the National Police). The Embassy was informed by the GOH that while the investigation is classified, there is no evidence to link Hernandez with illegal or extra-legal activities.

SENATOR HARKIN: In an unclassified portion of a letter of July 6, 1987 from Fred Ikle, Undersecretary of Defense, to me, Mr. Ikle states: "Major Hernandez was formerly Commander of the 316th MI (military intelligence) Battalion, and is currently in charge of the Advanced Officers School of the Honduran Army."

Has the State Department or our Embassy made any inquires into Hernandez's past involvement in Battalion 316? Are you concerned of the apparent contradiction between our government trying to reform Honduran security forces through the ATA program and 660d while tolerating someone like Hernandez, who has been associated with an organization like Battalion 316?

MR. BREMER: As I indicated in my answer to the previous question, Military Intelligence Battalion 316 was formed after the period during which Hernandez was alleged to have commanded the secret unit Mr. Caballero claimed engaged in human rights abuses. I must emphasize that neither the State Department nor the US Ambassador have had any confirmed evidence which would suggest that the 316th Battalion has engaged in any human rights violations. I must also emphasize that the training that is discussed in this article was not provided through the Anti-Terrorism Assistance program. In fact, the ATA program did not even exist at the time that these events allegedly occurred.

One of the prime objectives of the ATA program has been to provide training in law enforcement techniques consistent with the human rights traditions of the United States. These considerations are infused throughout our curriculum, and are intended to prevent the types of abuses which the article alleges occurred in Honduras several years ago and under a prior government. There is always a dilemma when we are trying to improve the human rights performance of a country, because the human rights abuses which may exist do not stop immediately when we begin our human rights improvement efforts. If we cease our efforts simply because we have evidence that the abuses are continuing, we run the risk of defeating our purpose.

SENATOR HARKIN: The LeMoyne piece mentions that last year our government held up police aid to Honduras because of the controversy surrounding Hernandez. Is this correct?

MR. BREMER: Yes, when the allegations regarding Hernandez were brought to our attention in 1987, we suspended the program until we could look into the matter. We found nothing to confirm the allegations and resumed the program.

SENATOR HARKIN: Can you detail the scope of the investigation conducted into Hernandez? Was the DOD and CIA consulted. Can you provide me details on that inquiry into Hernandez and the activities of Battalion 316?

MR. BREMER: We checked Department of State records, with our embassy and with other U.S. Government agencies (CIA, Defense Intelligence Agency, FBI) that would be in a position to evaluate the charges of alleged human rights abuses by Hernandez. We have not been able to uncover any information that would substantiate the charge that Hernandez was involved in any disappearances. We understand when charges of alleged human rights abuses by Hernandez were surfaced in Honduras, he was relieved of his position by Honduran authorities pending investigation. The results of the military investigation were that there was no evidence to link Hernandez with illegal activities.

We have also been unable to substantiate the more detailed allegation made by Florencio Caballero who claims to have been an interrogator in Battalion 316 under Hernandez. Despite our internal inquiries and extensive inquiries to other agencies, we have obtained no corroboration of these charges.

SENATOR HARKIN: Has anyone in our government interviewed Mr. Caballero?

MR. BREMER: Not to my knowledge.

SENATOR HARKIN: In the case brought against the Honduran Government before the Inter-American Court on Human rights, the Honduran government is accused of responsibility for the disappearance in 1981 and 1982 of two Costa Ricans and two Hondurans, whom prosecutors charge were killed by a secret Honduran military intelligence unit and death Squad called Battalion 316. Witnesses in this case accused Alexander Hernandez of death-squad activity.

Two of the 16 witnesses in the case -- Miguel Angel Pavon, vice president of the Honduran Committee for the Defense of Human Rights, and Jose Isaias Villatoro, a police intelligence officer have been killed.

What is the status of investigations conducted by Honduran security forces into these killings? Would you consider these killings terrorist acts? Is our ATA program being used to assist the Honduran police in conducting this investigation?

MR. BREMER: Both killings remain under investigation in Honduras. The Cinchonero guerrilla/terrorist group has claimed responsibility for the murder of Army Sergeant Villatoro, saying that it "assassinated the assassin." We have no evidence implicating any individual or group in the murder of human rights activists Miguel Pavon or Moises Landaverde. However, the regional leadership of the Party of Innovation and National Unity (from which Pavon was an alternate congressional deputy) and a former officer of the Committee for the Defense of Human Rights in Honduras (CODEH) have publicly dismissed allegations of armed forces involvement. A relative of one of the victims has publicly expressed his belief that the FUSEP was not responsible for the killings.

We do not have enough information on the case to make a determination on how it should be classified. The ATA program does not provide investigative training and is not involved in specific investigations.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

ARMENIAN REFUGEES

SENATOR HATFIELD: The FY 1988 ceiling for Eastern Europe was 15,000, and then in March, an emergency was declared by the Department and an additional 15,000 numbers were allocated for Eastern Europe. As of the end of April, 12,863 of the ceiling had been used, of which 5,319 were Armenians, 4,300 were Soviet Jews, 1,351 Poles, and 1,850 other Eastern Europeans. By now the original 15,000 ceiling has been fully utilized, and it is likely that funds remain to move another 5,000 to 6,000. This would leave unused over half of the emergency allocation of 15,000.

How many Eastern European numbers will be used in FY1988? What bearing will this have on the level the Department will consult with Congress on Eastern Europeans?

AMBASSADOR MOORE: The total number of refugees from Eastern Europe and the Soviet Union admitted to the U.S. through the end of June and allocated numbers for admission through the end of July is 21,562. Of these, 5,729 have been used by, or allocated for, Eastern Europeans. In order to begin addressing the Eastern European backlog following the Presidential Determination to increase the overall FY 88 Eastern European ceiling, 1,800 Eastern European numbers were allocated for June and July. We also earmarked a substantial percentage of these numbers for movement of travel-ready Eastern European refugees in Italy, most of whom are Poles. We anticipate that we will reach and possibly surpass our initial FY 88 estimate of 6,500 Eastern European admissions. Were sufficient funding available, we could use more of the additional 15,000 numbers to reduce the backlog of approved Eastern European refugees in first asylum Western European countries during this fiscal year. As we will want to try to admit the remaining approved Eastern European refugees early in FY 89, our FY 89 consultation figure for the region will be affected by the INS-approved carryover from FY 1988 in addition to projections of Soviet admissions.

KHAO-I-DANG REJECTED

SENATOR HATFIELD: There are approximately 12,000 Khmer at Khao I Dang refugee camp who have been either rejected or determined "not qualified" by the INS. Many of these denials were based on dubious findings of fact by the ethnic affairs officers.

What steps have been taken to effect a reconsideration of denied Khao I Dang cases? What are the numbers of "not qualified" cases among the residual at Khao I Dang? What is the Department's view of an independent board of experts reviewing the EAO notes for these rejected cases, with the possibility of immediate reconsideration by tahe INS if so recommended by this Board?

AMBASSADOR MOORE: The office of the U.S. Coordinator for Refugees and the Bureau for Refugee Programs have energetically pursued the question of a review of the denied cases at Khao-I-Dang. Unfortunately, it has not been possible so far to work out an Administration position on the issue, but we will continue to pursue it.

Any review of the denied Khmer, in order to be worthwhile and fruitful, should start from a fresh overall approach, with new guidelines and procedures. Singling out one aspect of the previous procedure, such as the EAO interviews, would not suffice. Therefore we would not agree with the idea of an independent board to review EAO notes.

"Not qualified" cases are those determined not qualified for presentation to INS on the basis of their not qualifying under priorities 1-5. The 12,000 residual of the original Khao I-Dang population arrived before April 30, 1982 (when the restriction on P-6 processing took effect), and therefore the U.S. considered this population in all priorities. (The great majority of the denied cases, in fact, are P-6s.) Therefore, among this population there are no cases which were not ineligible for presentation to INS -- no "not qualified" cases.

CARRYOVER

SENATOR HATFIELD: The Appropriations Committee this decade has watched carefully the carryover, i.e., the number of individuals approved in one fiscal year but resettled in the following fiscal year. Last year the Committee instituted report language directing a FY 1989 carryover of at least 40% of the FY 1988 fiscal year ceiling.

What will be the carryover as we enter FY 1989? (Please break this figure down region by region.)

AMBASSADOR MOORE: It is important to note that phrases such as "carryover" and "pipeline" mean different things in different regions because of variations in the ways refugees are processed. The timing of English as a Second Language (ESL) training for refugees plays a key role in the size of the carryover for Southeast Asia. No comparable system exists in the rest of the world. In those regions, the size of the carryover at year's end is more dependent on the timing of INS circuit rides and the amount of time necesary to complete post-interview processing steps. For example, in Europe, where there are several INS offices, the number of approved refugees at any one time tends to be quite large. In Africa and Near East Asia, where there are fewer INS offices and INS officers make periodic trips to interview refugees, the number of refugees awaiting INS interview is frequently larger than the number of approved refugees awaiting departure.

The size of the carryover in each region depends on a number of variables, including applications received and approval rates over the remainder of the fiscal year, time spent in obtaining clearances, sponsorships assurances, and travel arangements, and availability of budget resources. Thus we are uncertain what the exact carryover of approved refugees into FY 89 will be.

However, given those caveats, the Department can make some estimates of year-end carryover based on admissions and approvals through May, 1988. Because movements into the refugee processing centers in Southeast Asia are determined well ahead of time, figures for Southeast Asia are somehwat more reliable than those for the rest.

Estimated End of FY 88 INS-Approved Carryover by Region

EAST ASIA/FIRST ASYLUM	14,500
EAST ASIA/ODP	3,500
EASTERN EUROPE AND THE SOVIET UNION	
-- Eastern Europeans	5,000
-- Soviets	500
-- TOTAL	5,500
NEAR EAST/SOUTH ASIA	
-- Iranians	3,000
-- Afghans	800
-- TOTAL	3,800
AFRICA	1,000
LATIN AMERICA	500
GRAND TOTAL	28,800

UNDERUTILIZED NUMBERS

SENATOR HATFIELD: There has been concern that a number of regional admissions ceilings will not be met in FY 1988.

Please provide a breakdown of each region's ceilings and projected admissions, and explain the reasons for these shortfalls.

AMBASSADOR MOORE: As I noted above, actual admissions relative to regional ceilings will depend upon funding and processing progress over the last three months of the fiscal year. The fundamental reality is that although the President raised the worldwide ceiling from 68,500 to 83,500 after emergency consultations with Congress, the budget has remained at the level originally designed for admissions of 68,500.

The Department expects that cost-saving measures introduced over the course of FY 88 will enable us to admit up to 72,000 refugees within the current budget. However, failing additional resources, it will be impossible to fund admissions up to the Presidentially authorized ceiling. This reality forces us to make certain decisions as to how the funding shortfall should be shared among regions, in accordance with humanitarian and foreign policy objectives. Some (but not all) of the regional shortfalls can be traced to this problem, as discussed below.

I would also like to point out that the worldwide and regional figures set by the President in consultation with Congress each year are ceilings rather than quotas or targets. These caveats aside, our best estimates, as of June 10, of admissions by region in FY 88 are as follows:

EAST ASIA/FIRST ASYLUM

CEILING 29,500 EXPECTED ADMISSIONS 28,000

In estimating the required admissions level for this year, we considered a number of different factors. These include populations we knew to be available for processing and an estimate of new arrivals during the course of the year. Our formulation also included a number of contingencies to allow us to respond to the very fluid refugee situation in Southeast Asia. These contingencies included 3,000 numbers for a possible review of the denied Khmer in Khao-I-Dang. The administration has not yet been able to come to a decision about a review of this group; therefore, none of the 3,000 numbers set aside for the denied Khmer were used for this purpose. Another contingency built into the FY 1988 ceiling was the possibility of processing some P6 refugees from Hong Kong. We believe, however, that broad international participation in Southeast Asia refugee resettlement is important. We especially look to the United Kingdom to take the lead in the resettlement of Vietnamese from Hong Kong.

Another factor which has limited our ability to fully utilize the FY 1988 ceiling is the lead time necessary to gain access to certain groups for processing. For example, in May 1988 we decided to process Ration Card Holders in Thailand. Due to delay in gaining access to this group, however, not all of the approved Ration Card Holders will arrive in the U.S. before the end of this fiscal year. We expect some 1,000 Ration Card Holders to finish ESL/CO training and enter the U.S. early in FY 1989.

The above factors have made it impossible to fully utilize our ceiling; nevertheless, every effort has been made to take advantage of the numbers available to us. The ceiling has allowed us the flexibility to respond to increased boat arrivals in Southeast Asia. High numbers of boat arrivals in Southeast Asia during 1987 are reflected in our increased approvals of boat Vietnamese in FY 1988. We also increased our admissions level for Highland Lao in FY 1988 to just over 10,000 (up from 8,300 last year).

In an additional measure to allow full use of our ceiling, we have slightly reduced training for some Vietnamese in order for them to graduate before the end of the fiscal year. Accelerating admission of additional refugees would mean cutting severely into their training, thus drastically undercutting the effectiveness of the ESL/CO program.

EAST ASIA/ORDERLY DEPARTURE PROGRAM

CEILING 8,500 EXPECTED ADMISSIONS 7,000

As you are aware, interviewing for the ODP and Amerasian Program resumed in September. At that time, we fully expected to be able to use all of the 8,500 numbers allocated for the program. In fact we have interviewed and approved more than enough refugees to meet this ceiling. Unfortunately, there will be some numbers unused at the end of the fiscal year due to factors beyond our control. A major bottleneck in the program is transportation between Ho Chi Minh City and Bangkok. The scheduling of these movements is controlled entirely by Vietnamese authorities and delays have resulted from their insistence that Air Vietnam have almost a monopoly on transporting ODP passengers out of Vietnam, despite Air Vietnam's limited capacity.

We have, of course, raised this issue with Vietnamese officials, providing them with specific suggestions to relieve the problem. We will continue to press the Vietnamese until movements from Ho Chi Minh City to Bangkok keep pace with the ever increasing rate of interviews.

AFRICA

CEILING 3,000 EXPECTED ADMISSIONS 1,500

As has been the case in past years, the shortfall in admissions from Africa is due largely to processing problems in Khartoum. Although we expected up to 1,500 admissions from Ethiopians in Sudan in FY 88, only 367 refugees actually departed Khartoum from October 1987 through May 1988. Over 800 additional refugees approved during INS trips in October 1987 and March 1988 await exit permission from the Sudanese Government. Given our experiences over the past two years, we expect only a fraction of these individuals to receive exit permission in time to travel in FY 88.

Difficulties in setting up the new INS office in Nairobi have also kept admissions slightly lower than expected. Finally, in setting the ceiling at 3,000, we anticipated a larger number of admissions from some applicants, such as southern African refugees, who simply did not come forward in large numbers in FY 1988. We hope that approximately 1,000 approved refugees who were unable to travel in FY 88 will be admitted to the U.S. early in FY 89.

ARA

CEILING 3,500 EXPECTED ADMISSIONS 3,000

Admissions will probably fall slightly short of the regional ceiling. This is in large part because we expect that up to 300 individuals from Cuba will enter as Parolees rather than refugees. (We had reserved 3,000 admissions under this ceiling for admissions from Cuba under the Migration Agreement of 1984.)

NEAR EAST/SOUTH ASIA

CEILING 9,000 EXPECTED ADMISSIONS 9,000

EASTERN EUROPE/SOVIET UNION

ORIGINAL CEILING 15,000/ REVISED 30,000/ EXPECTED ADMISSIONS 23,500

Although the President raised the ceiling for this region from 15,000 to 30,000 after emergency consultations with the Congress, the FY 88 budget for refugee admissions has not been increased. The lower level of admissions reflects this reality.

ETHNIC AFFAIRS OFFICER SYSTEM

SENATOR HATFIELD: There has been a very strong showing made that the EAO system has added an unnecessary layer to the refugee processing bureaucracy, and worse, has led to faulty INS determinations on refugee cases and many other "not qualified" findings.

Please provide the Department's view of the continuation of the EAO system. How much money do these ethnic affairs officers receive (please give the name and separate salary figures for each officer), and through what international organization are these funds paid? Please provide the Committee with a copy of the EAO notes of the case of the gentleman at Phanat Nikhom who had been labelled "not qualified" and who committed suicide at the camp in April, 1988.

AMBASSADOR MOORE: We consider the EAO system a necessary element in maintaining the integrity of the Southeast Asia refugee program. The EAO officers are primarily responsible for reviewing cases where a refugee claim rests on former employment with the U.S. Government or on a connection to the former regime, but where documentation is not available to back up this claim. The EAOs possess area expertise to evaluate these undocumented claims; thus, the EAO function enables INS to make informed decisions on a person's eligibility for our refugee program even if that person lacks certain documentation. We therefore believe that, rather than being an unnecessary bureaucratic layer, the EAO system leads to smoother processing and sounder adjudication decisions in a country like Thailand where we have such a large program.

There are currently five EAOs working on the first asylum caseload in Bangkok: two for Vietnamese cases, two for Lao cases and one for Khmer cases. A sixth EAO works primarily on ODP cases, although he has helped out when needed with the first asylum work. Below are listed the names of the EAO's presently working in Bangkok and their rate of pay, which includes housing allowance, benefits and salary:

James Chamberlin	$4,398/month
Douglas Johnson	$2,365/month
William Crothers	$2,177/month
William Wharton	$2,429/month
Antony Cistaro	$2,917/month
Thomas Malin	$2,429/month

EAOs are hired by the Intergovernmental Committee for Migration (ICM) to assist in the processing of refugees destined to come to the U.S. and their costs are fully reimbursed by the USG. ICM, as you know, is responsible for the movement of Indochinese refugees from Southeast Asia to the U.S., and other related services.

The EAO notes referred to in your question are being pouched to the Department from our Embassy in Bangkok. When the notes arrive in Washington, our Legal Advisor's office will contact your staff to make appropriate arrangements for review.

SUBCOMMITTEE RECESS

Senator INOUYE. I would like to thank you once again for being with us this morning. This committee will stand in recess until 10 a.m. Tuesday, June 14. At that time we will be receiving testimony from public witnesses. We stand in recess until then.

[Whereupon, at 12:20 p.m., Friday, June 10, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, June 14.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1989

THURSDAY, JUNE 16, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:04 a.m., in room SD-192 Dirksen Senate Office Building, Hon. Daniel Inouye (chairman) presiding.

Present: Senators Inouye, Johnston, Leahy, DeConcini, Lautenberg, Mikulski, Kasten, Hatfield, and Specter.

DEPARTMENT OF STATE

SECRETARY OF STATE

STATEMENT OF HON. GEORGE SHULTZ, SECRETARY OF STATE.

OPENING REMARKS OF SENATOR INOUYE

Senator INOUYE. The subcommittee will please come to order.

I would like to apologize at the outset that the PA system is not working. We will try our best to project ourselves.

Mr. Secretary, this hearing may very likely be the last hearing that you will testify before as Secretary of State. And, in the same sense, this may be my last hearing as chairman of the Foreign Operations Subcommittee. I am scheduled to become Chairman of the Defense Appropriations Subcommittee next year.

COMMENDATION OF SECRETARY SHULTZ

Since 1959, when I began my service in the Congress, it has been my privilege to serve with countless Secretaries of State, over a dozen. I am certain that when historians write the chapter of George Shultz, they will do a very favorable job.

We on this committee have been very pleased to work with you, sir. You have done extraordinary service to the people of the United States.

I have no idea what you intend to tell us today. I gather that the statement before us may not fully incorporate your thoughts and your sentiments, but the floor is yours, sir.

But before we hear from you, I would like to call upon my colleague, Senator Kasten.

Senator KASTEN. Mr. Secretary, let me just echo the words of our chairman, Senator Inouye. We have had a wonderful working relationship with you. You have maintained a good relationship with all of the members of the subcommittee, and I think that is important to the conduct of foreign policy.

One way or another, the two of us have tried to do what you believe in so much, which is to establish a bipartisan approach to so many of these issues. We have been successful in that.

So I not only recognize the fact that, absent some emergency or something we cannot anticipate right now, this would be your last hearing before us. I also recognize the fact that this is the last hearing in which Chairman Inouye will appear with a Secretary of State with this subcommittee.

Chairman Inouye, either as ranking member or as chairman, has been the leader of this committee for 16 years, and not only do I salute you, Mr. Secretary, but, Mr. Chairman, I salute you as well.

Senator INOUYE. Senator Hatfield.

Senator HATFIELD. Thank you, Mr. Chairman.

Mr. Secretary, I welcome you here this morning.

I just want to say that you have been a class act, and I am proud, not only of your record, but may I say from my particular wing of the party, you are one of the great reasons that makes me proud to be a Republican.

Senator INOUYE. Senator Mikulski.

Senator MIKULSKI. Well, what can I say? [Laughter.]

Mr. Secretary, I, too, want to echo those comments.

When your appointment was announced some years ago, I was in a Democratic policy conference, and there was a great deal of reservation initially about your nomination, and particularly where perhaps you would be in terms of advocacy in the Middle East.

I can tell you that one of the great pleasures of serving both in the House and in the Senate was to watch your very fine performance as the Secretary of State, and I mean that most sincerely. For those areas where people initially had reservation, it is where, in many ways, you have made some of your most aggressive efforts, for which we have been most appreciative.

I know that when people will say to me what do you think of George Shultz, I'll say that underneath that sphynx-like character is one heck of a good fighter.

We thank you for the INF Treaty and we thank you for your advocacy in the Middle East.

We know that you could not have done everything you wanted to do. But it was not because you didn't try.

We look forward to this conversation.

Senator INOUYE. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, I join my colleagues in expressing appreciation for your outstanding work, and especially for so many informal sessions, like the one again yesterday afternoon, bringing us up to date on an informal basis.

Thank you, Mr. Chairman.

Senator INOUYE. Senator Lautenberg.

Senator LAUTENBERG. I would just join in the gang salute here with my compliments, Mr. Secretary, for a job well done.

We have watched over a period of time to see how diligent you have been about things and not constrained, and we respect and appreciate that. We hope that you will continue in these last months just as diligently to accomplish more of the great things that you have already done.

ACCOMPLISHMENTS AND UNFINISHED BUSINESS

Senator INOUYE. At this moment of reflection, Mr. Secretary, as I look back on the 5 years of your service, I am amazed, just as much as you must be, at the magnitude and scope of the problems you have had to deal with, and in assessing the book, we see many victories—the arms treaty, Afghanistan, but we still have many problems remaining, such as world hunger and poverty.

I would like to give you an opportunity at this time to also reflect with us and maybe share with us for our records what you consider to be your proudest moments as Secretary of State. There must have been many. And let us know what you think the unfinished agenda is for our successes to work upon.

STATEMENT OF HON. GEORGE SHULTZ

Secretary SHULTZ. Thank you very much, Mr. Chairman and Senators. I appreciate your statements. I truly do.

I also have appreciated the constructive way in which it has been possible for me to work with this committee and others in the Senate and in the Congress.

It may be this is my last appearance, but you never know. [Laughter.]

Forty years ago, when I took the last oral exam to get my Ph.D. degree at M.I.T., when I got through the exam, I went home and told my wife, "Thank God that's over. I've been taking exams all my life. That's the last one. From now on, I'll be giving them."

So here I am, constantly before the Congress, getting examined and engaging in this process. It's endless.

150 FUNCTION BUDGET

But let me say, Mr. Chairman, first of all, that I appreciate very much the work of this subcommittee on the 150 function budget. The budget that is before you and that you will be marking up I consider to be a bare-bones budget. I wish it were more, even a reasonable amount more—not a gigantic sum, but more.

I fully recognize the budget summit and the budget is geared to that, and I know very well that, had it not been for the work of this committee, the result would have been much less satisfactory than it is.

So I want to combine saying that I think our Nation could well afford and use additional resources here with, at the same time, a statement of appreciation to you and members of the committee for it being where it is, and to say to you that we will work, and will try to work with you in arranging this money in a manner that will serve our interests most effectively.

FOREIGN AFFAIRS IN A RAPIDLY CHANGING INTERNATIONAL ENVIRONMENT

Let me respond to your invitation, Mr. Chairman, and let the statement that has been prepared go into the record. Let me just talk a little bit about some outstanding things here, giving you my own reflections and using this testimony from time to time.

I think we have seen some real change and progress in the world over the last few years. But I also think that the world ahead of us has great opportunities for us. And they are going to be very different.

And so, it is important to try to understand what is taking place, and how it will affect the global trends, and what implications there are for the United States.

I have tried to do that and, more important, the President has tried to do that. He gave a speech at Moscow State University that expressed some of these thoughts. I could see as I sat there and watched the students listening to it, and they could understand as he spoke because they had earpieces. I could see that they were fascinated with the President's statements about the future, how it was going to be and what it takes to be a part of it.

So I made a little sort of tabulation that I handed out to my colleagues in the NATO meeting for discussion, and on some other occasions, that consists of three addresses that the President has made, talking about the future, and a couple of presentations that I have made, along with some charts and tables that fascinate people because they are illustrated in color.

There are all sorts of things in these presentations. Mr. Chairman, I would like to hand this over to you and, if you think it is warranted, you might want to put it in your record because I think it does have a lot of interesting material to reflect on.

Senator INOUYE. Without objection, the material will be retained in the subcommittee files.

GLOBAL TRENDS

Secretary SHULTZ. The general theme of this material is that we are now in a new age. Some call it the "Information Age," some call it the "Age of Knowledge." But it is qualitatively different. What now is done in the generation and creation of information and knowledge, in the way it is used, in the way it is transmitted around, it is, in a sense, out of control in that no sovereign state can control what comes across its borders by way of information anymore.

So I think that, as we contemplate the future and as you contemplate as you go on in your various responsibilities where we are going, account must be taken of the thrust that these new things give to world events.

You can see it in terms of progress in health research. You can see it in terms of biotechnology. You referred in your comment, Mr. Chairman, to the fact that there is still hunger in the world. Certainly that is true. But that is not because we don't know how to grow enough food for everybody in the world. It is a question of getting the technology out there, and it is a question of getting, you might say, the policy practices of countries into some sensible shape. And, of course, there will be parts of the world hit by drought or hit by locusts or something that mean that you have to do some redistribution.

But without a doubt it is possible to feed the world.

The new age has its impact on raw materials.

Look at these little chips and consider what they can do. And from the standpoint of raw materials, they are little grains of sand. That's all. Or look at fiber optics and their impact on the communications business, and think of the copper that is not needed as a result. You will see that the entire meaning of raw materials is shifting.

WORLD ECONOMIC TRENDS

When we look at economic trends, we, of course, see the fact that world GNP is growing. There are some charts in here on this indicating that, naturally, as you compare the present with the period right after World War II, the U.S. share of world GNP is shrinking, although we are still a quarter of it. So we are huge. But, there is a new distribution of economic capability that is emerging around the world.

From our standpoint, it seems to me what this says to us is not that we are lagging, is not that this is, in any sense, bad for the United States, but quite to the contrary. We have prospered in this period, and we can continue to prosper. But it means that we are very much a part of the global economy. We are not in any sense separable from it.

It also means that, as we work economically, strategically, politically around the world, we, even more than now, will be looking for partners, looking for alliances, paying attention to these regional organizations that are springing up all around, such as ASEAN, where I will be going early next month for their annual meeting, and seeing how we can make common cause with them and help bring coherence.

I might say from a budget standpoint that we just must make our contribution on the economic side. The general capital increase, or GCI, is needed in this budget. Secretary Baker has been testifying and pushing on that, and I hope you will find it possible to maintain our support for, in this case, the World Bank.

ARREARS IN U.S. PAYMENTS TO U.N.

I worry a great deal about the fact that we are so far in arrears in our payments to the U.N. and the U.N. agencies. I recognize all of the problems and frustrations that we have gone through.

I remember, Senator Kasten, that you and I had a considerable discussion about this.

But, when all is said and done, this is a necessary organization, and we are almost half a billion dollars in arrears. It is just not like the United States to perform that way. We live up to our obligations. So we just have to do it.

U.S. PRODUCT PRODUCTION IN FOREIGN COUNTRIES

But, to go back to the theme of how integrated we are in the world, and what is happening in the world, among the charts in here (indicating) is one that shows, just as an example, the Ford Escort, which is made in Europe. It shows in a little chart where the different parts come from to make the Ford Escort. There are some 16 different countries represented.

So, if you say the Ford Escort is made in France, that is not a correct statement. It is made all over the world.

There is a shipping label here that I like a lot, which is on a product of the National Semiconductor Corporation. It says, "Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, Mexico, Philippines." The exact country of origin is unknown, or it is all mixed up.

Forty percent of our trade is accounted for by shipments back and forth among multinational corporations. So trade itself and the production process itself has become internationally integrated.

So, all of these things lead me to think, Mr. Chairman, that, as we look to the future, we have to try to understand carefully all of these new things that are taking place and adapt our policies to them.

U.S. PROGRAMS INITIATED DURING WORLD WAR II

I think what we will find when we do that, however, is that many of the basic, most of the basic principles that were put in place by the statesmen of the immediate World War II period will stand up very well. It has always seemed to me that U.S. leadership in that period, and the institutions that were put in place, and that have served us so well for 40 years, are also basically the building blocks for the future.

Those institutions, NATO, the various international financial institutions, the OECD, the European Community, the beginnings of regional organization, all of these things continue to be necessary.

Not only this, but when we consider the nature of the new world, it is clear enough that it is congenial to open societies much more than to closed and compartmented societies. And, to a certain extent, perhaps, that is one reason why we see in the communist countries a giving way of some of the tightness and control that they have traditionally had. The situation is forcing them to do so.

PRINCIPLES TO GUIDE POLICY IN A CHANGING WORLD

There is in my testimony beginning on page 8, I believe, a set of guiding principles, and I think they are pretty good. Let me just read them out to you.

> Number one, openness, free market values and responsible engagement must be America's three guiding principles if we are to grasp the opportunities of a changing world. And American diplomacy will be an ever more critical instrument for putting those principles into practice.
>
> In the current context, pursuing America's traditional foreign policy interests and objectives means rejecting protectionist and isolationist tendencies at home and promoting openness in our economic and political relationships; sharing responsibilities for global

and regional security and prosperity in accordance with the growing capabilities of other countries around the world; supporting emerging democracies and working with regional coalitions, such as ASEAN and the European Community, as they tackle the challenges of linking their interests to the global system; and continuing effectively to meet threats to regional and world peace, while being receptive and flexible when we see communist nations making genuine efforts to open their societies and their economies in an attempt to adjust to the demands of a globalized world economy; and confronting the dangers that terrorism and international narcotics trafficking pose to the world community.

NEED FOR ADEQUATE BUDGETARY RESOURCES AND FLEXIBILITY IN APPLYING THEM

If we are going to be effectively engaged, obviously we have to have resources to do it with. Here is where the 150 budget comes in, and here is where the work of this committee comes in. I have already commented in a general way about that.

But I can't help but remark again on the importance of having adequate resources and of having at least a reasonable amount of flexibility in using them.

As you know, the House bill, which we supported—although that does not mean that we agree with all of it; we have our things to suggest, as you know, because they have been part of the long testimony that you have heard—the funds in it are heavily earmarked, almost wholly earmarked. There is no flexibility. There is no built-in opportunity there for using money for things that come along that are not expected.

We are going to have to deal, and must deal adequately, with the Afghan refugee problem. We are trying to promote, and, Mr. Chairman, you have been very helpful in this, the idea of a multinational effort to provide additional help to the Philippines. We are going to have to put some money in that pot. Where are we going to get it?

If things should go better in a place like Panama—and, right now, they are not—but if Noriega is somehow gotten out of there and they can take up a more democratic pattern of government, we will want to help Panama get on its feet.

We have had great success in Central America on a bipartisan basis in supporting the four democracies there. And we need to continue to do that. And we need to say to Nicaragua that if only they would get their head screwed on right and really engage in negotiations that put in concrete terms what they have promised, then there is something at the end of that rainbow.

But we don't have flexible funds in here for things of this kind and others that I could name.

I have already mentioned the GCI and also the U.N. arrears. There are comments in the testimony about various areas of the world, and I don't think I will try to go around the world with you, so to speak, and would prefer to just respond to your questions. But let me make comments on three areas of the world and pieces of subject matter that I have been engaged in heavily very recently.

U.S.-SOVIET RELATIONS

First of all, on the U.S.-U.S.S.R. relationship, I think we see a successful effort in which the President's four part agenda—human rights, bilateral issues handled on a reciprocal basis, regional issues and arms control—have all been moved forward with substantive improvements in all of those areas. You can see the progress since the November 1985 summit.

All of this has very broad support. I sometimes get asked what has happened to the bipartisan foreign policy. I say that well, as far as I can see, with the exception of our struggle over Nicaragua, we have a bipartisan foreign policy, and the efforts that we have made as a country with respect to the Soviet Union have been exactly of that nature. That is one reason why they have succeeded.

So our program has interacted in a positive way with what is clearly a new analysis of their situation by the new Soviet leadership. I think that the summit meeting did indicate that there is probably something of genuine, deep significance taking place that is very important to us.

We need to keep pushing on our four-part agenda, while, at the same time we need to keep reminding ourselves, as it is true, that the military program of the Soviet Union continues unabated. As far as we can see, there has been no let-up. So you have to keep that in your mind, as we keep our own situation strong.

It also is true, so far as we can see, that the KGB remains as strong and central an organization in that society, unchanged, as ever. So, as people are invited to speak out and criticize and so on, they just have to be a little shaky as long as such a powerful organization exists that can crack them back immediately.

Nevertheless, it does seem that big changes are underway, and I think that the policies that we have discussed back and forth here many times are basically the right ones, and we need to keep going forward with them.

NATO BURDEN-SHARING

I spent a couple of days with my colleagues in NATO and we discussed this and other issues. We discussed, among other things, burden-sharing. It was interesting to me to see, on the one hand, how alert they are to this problem, how complex the issue is when you really dig into it, and how important it is at the same time that we all do measure up to our respective responsibilities.

We have an outstanding example on our hands in the case of Italy. I mention it because Prime Minister Damita happens to be a visitor in Washington right now. But, when it became clear that Spain did not wish to continue providing a home for the 401st Air Wing, Italy, at NATO's request, stepped right in, without making a big "to-do" about it, and basically took the attitude that this is what good allies are for. They have simply moved forward, and I hope that their parliament will vote for that very shortly. It seems that all parties are supporting it, so I assume that they will.

That was a good performance.

The NATO alliance is essential and strong. It certainly has plenty of problems to examine, and is examining them. But we have a very good alliance on our hands there.

THE MIDDLE EAST

As you all know—just a word on the Middle East and then I will stop—I have been wandering around that part of the world quite a lot this year. It is striking what I have found.

Leaving aside the details of the initiative that we have put forward, that I have put forward on behalf of the United States, I have found a keen appreciation of the fact that there are very deep problems and they are not getting better and they won't go away. And, therefore, I have found on all sides some agreement: Whenever I meet with somebody and we have our discussion back and forth about this, that, or another aspect of the plan, and we come toward the end of the meeting, and whoever I'm meeting with says, "Now, George, let me just be clear. It is just essential that you keep going. And it is just essential that the United States stay involved. It is just essential that we have something here that we can see is a peace process. We can argue about it, but the absence of that, a vacuum, would be a very bad thing. So, keep this alive."

LETTERS ON INITIATIVE

I brought along, Mr. Chairman, again, if you are interested in looking at it or putting it into the record, a collection of the various statements that have been made in the course of this initiative—all public documents, and statements made on arrival or departure, or letters, whatever. They give a flavor of the flow of this initiative. I have it here for your record, if you would like to include it.

Senator INOUYE. We would be very happy to receive that, sir, and include it in our subcommittee files.

ACCOMPLISHMENTS

Secretary SHULTZ. Well, Mr. Chairman, those are some of my thoughts. You asked me what, in a sense, has given me the most satisfaction, I suppose, in my tenure as Secretary of State.

There have been a lot of big things that I have appreciated and been proud to be a part of. But I suppose the thing that touches me the most and which gave me as much satisfaction and brought tears to my eyes was this. One day, a few months ago, having worked a lot on the human rights aspects of our relations with the Soviet Union, I happened to be over in the White House, and I got a little note saying that if I was over in my office in about an hour, I would be getting a telephone call from Ida Nudel, and that it was hoped that call would originate in Jerusalem.

I had seen her at a Seder some months earlier in Moscow. She is a wonderful woman. And I had met her sister a number of times and talked to her.

So, sure enough, this phone call came through. Ida Nudel, who had never been outside the Soviet Union before, said, "Mr. Secretary, this is Ida Nudel. I'm home."

I've met her quite a few times since then. Whenever I go to Israel, she comes around. We talk and share experiences.

But I think what it comes down to in the end is these things that you can feel you at least had a little bit to do with, that make some human being's life a little better. These are the things I get my kicks out of, Mr. Chairman.

Senator INOUYE. That says a lot about you, sir.

[The statement follows:]

PREPARED STATEMENT OF HON. GEORGE P. SHULTZ

Secretary of State

Mr. Chairman, I am pleased to come before the Committee to discuss our FY 89 budget request. It is an austere request that complies with both the letter and the spirit of the Budget Summit compromise. And with respect to that agreement, Mr. Chairman, I want to take this opportunity to express my very sincere thanks to you and to the Subcommittee's ranking member, Senator Kasten, for your strong support of Function 150, particularly during last year's Budget Summit exercise. As a result of your good efforts, our international affairs budget came out of the Summit in much better shape than otherwise would have been the case. We would have preferred more. We certainly can't do the job with less. But we are certainly much better off than we would have been had there been no summit agreement at all.

That being said, we all must acknowledge that what we have accomplished is but a necessary interim measure. Despite the gains we made in the Budget Summit, the resources available for foreign operations in FY 1988 have declined for the third consecutive year. The cumulative reduction since FY 1985 is 24 percent, more after taking into account inflation and the depreciation of the dollar.
In addition, much of the total is encumbered by earmarks and other restrictions which severely reduce our capacity to use what we have to best advantage.

The small increase in funding we are requesting for discretionary foreign operations for FY 1989 is not even enough to offset anticipated inflation. If the Congress refrains from massive earmarking of funds -- and we urge that you do so -- we should be able to restore some funding for programs we have had to suspend. But, we will still be far short of what we need. And if low funding levels and legislative constraints on the application of allocated funds continue as they have for the past three years, my successors and the Congress will be facing a growing inability to serve America's most fundamental foreign policy interests and objectives.

Today, developments in technology -- especially those associated with what many term the "Information Age" -- are bringing about a fundamental transformation of the international economy and, with it, equally profound changes in global political and security relationships. Ours is a world of blurring national boundaries, dispersed power and new players vying for influence in international affairs. While all countries face the challenge of adapting to a turbulent, increasingly integrated and changing global environment, America is fortunate.

Unlike some countries, we will not need first to overcome the inertia that results from political dogmatism, inflexible economic structures and societies closed to the free flow of ideas, people and goods in order to protect our interests and promote our values in the decades ahead.

But, to grasp the opportunities of change, openness, free market values and responsible engagement must be our three guiding principles.

We must:

-- reject protectionist and isolationist tendencies at home and promote openness in our economic and political relationships;

-- share responsibilities for global and regional security and prosperity in accordance with the growing capabilities of other countries around the world;

-- support emerging democracies and work with regional coalitions such as ASEAN and the European Community as they tackle the challenges of linking their interests to the global system;

-- and, continue effectively to meet threats to regional and world peace, while being receptive and flexible when we see communist nations making genuine efforts to open their societies and their economies in an attempt to adjust to the demands of a globalized world economy.

In sum, for the sake of our national well-being and for the sake of our most cherished values, America must remain a fully engaged force around the globe for peace, prosperity, democracy and human rights.

Our Foreign Policy Agenda

The Reagan Administration is committed to an active and challenging foreign policy agenda for the remainder of its term. We know that the United States cannot afford the luxury of any letup in leadership. During the next fiscal year, two successive administrations will shoulder the burden of America's global responsibilities. Both will face the challenge of fulfilling our national objectives in a complex and changing world. To meet this challenge, both administrations will need not only the full amount of requested funds, but also the latitude to apply them effectively.

Today's American leaders of whatever party know that the realities are such that we cannot achieve our interests and objectives alone.

Nor can our allies and friends around the world adequately protect their security, ensure their domestic welfare or protect their democratic institutions absent the active support of the United States. That is why President Reagan has worked so hard to ensure that our European alliance is strong and vital and why we have strengthened our security and economic relationships in Asia and elsewhere in the world -- relationships that will be crucial to global prosperity and regional security well into the next century.

There are no quick fixes in foreign policy. But, with resolve and realism, this administration has been working the problems and has helped to make our world a safer, freer and more prosperous place to live in. From the outset of this administration, our policy has been to combine American diplomacy and American power in a coherent strategy consistently applied. We have proceeded from the conviction, confirmed by experience, that strength and diplomacy complement each other. You need them both.

U.S.-Soviet Relations. Nowhere is the effectiveness of these ideas more clearly evident than in the area of Soviet-American relations. From the beginning of the Administration in 1981, our goal has been to set East-West relations on a steady course.

Our effort derived from three principles:

- Realism: We had no illusions about the nature of the Soviet Union, or about the fundamental differences between us.

- Strength: We had to maintain our military strength. We knew that there would be no incentive for the

Soviet Union to reach fair compromises with a weak partner, no reason for the Soviet Union to reject military options if there was no potential source of opposition.

-- Dialogue: We sought a frank and honest exchange of views with the Soviet Union, in which we could be honest about our differences, and find ways to accommodate each other's needs without sacrificing our principles.

We are seeing the results of that policy today. U.S.-Soviet relations are in better shape than they were in 1981, and perhaps better shape than they ever have been.

The INF Treaty offers convincing proof that success in advancing our peaceful objectives depends not only on military strength and alliance cohesion, but also on the political will to provide the means necessary to meet our objectives. As significant an achievement as the INF Treaty is, we are not resting on our laurels.

Instead, we have kept our sleeves rolled up and are continuing to work for solid, steady progress in the four broad areas of our dialogue with the Soviets: human rights, regional affairs, arms control, and our bilateral relations.

The dramatic summit in Moscow was in fact part and parcel of a high-level work program between the United States and the Soviet Union that was launched at the first summit in 1985. It has been developing ever since and it will proceed long after the glow of the summit fades.

The fourth summit of this Administration demonstrated that solid, concrete results can be achieved when we are able to pursue consistent policies from a position of strength. Before the first Reagan-Gorbachev summit in 1985, and again before the Moscow Summit, the President made it clear that he wanted to create a durable process for dealing with U.S.-Soviet differences -- a lasting framework that he could pass on to his successor. The intensive work program begun in 1985 has led to achievements all across our four-part agenda. Now we have not only the INF Treaty, the Geneva Accords, progress on human rights and deepening cooperation on technical and cultural matters. We also have a political dialogue in place that is realistic enough and solid enough to deal with both the highs and the lows in the U.S.-Soviet relationship for years to come.

It was clear in Moscow that the Soviets are willing to join the Reagan Administration in an effort to take this dialogue as far as it can go. The Moscow summit, in short, showed the value not only of our specific policies, but of our resolve in the formulation and execution of those policies.

Our East-West agenda remains full. As the President's summit speeches indicated, human rights issues have pride of place when we discuss our concerns with the Soviets. We will continue to pursue human rights issues vigorously, both as they relate to individual cases and to principles enshrined in the Helsinki Final Act and other international human rights instruments. We welcome the recent improvements in Soviet human rights conditions, but we will not be satisfied until the rights of Soviet citizens are guaranteed in law, and consistently respected in fact.

On regional conflicts, our policy of matching diplomatic perseverance with support for freedom fighters in Afghanistan, Nicaragua, Angola and Cambodia has increased the odds for negotiated settlements:

-- After eight long years, the courage and determination of the Afghan freedom fighters -- and our steadfast support for their efforts -- paid off with the signing of the Geneva Accords on April 14.

The front-loaded Soviet withdrawal is well underway and we expect Soviet forces to be out by the end of 1988.

We will be watching to see that they leave on schedule, that there is Soviet restraint in the supply of arms to Kabul, and that the refugees feel able to return in safety.

And, we welcome the fact that Mr. Cordovez will work in a personal capacity to bring about a government which reflects the will of the Afghan people and to ensure a rapid, safe return of the five million Afghan refugees to their homeland. Without such a government, Afghanistan's stability cannot be assured.

Meanwhile, we are striving for additional progress in arms control. This Administration has refused to be satisfied with agreements that simply set upper limits to arms build-ups; we continue to work steadily and carefully for agreements that would actually reduce arsenals, enhance our security, and be effectively verifiable.

-- We will press ahead with the strategic arms reduction talks (START). We have made headway on important issues, but a good deal more work remains;

- If the Soviets are prepared to match our efforts, a verifiable agreement leading to a 50 percent reduction in U.S. and Soviet strategic offensive nuclear weapons will be possible. At the same time, we will continue to preserve our right to pursue a vigorous Strategic Defense Initiative;

- We will work to improve stability in Europe by rectifying the conventional imbalance;

- And, we will continue efforts toward a truly verifiable global ban on chemical weapons.

And, in the sphere of bilateral relations, we have established a high standard that requires reciprocity of benefit in every exchange. Our people-to-people exchanges have expanded greatly. The number of travelers between our two countries is rising sharply, with unprecedented totals expected this year. And new agreements are proliferating, extending the areas in which we and the Soviets are cooperating.

The Middle East. My recent trip to the Middle East underscored again the urgency of bringing about negotiations to resolve the Arab-Israeli conflict. The underlying problem remains: namely, the competition between two interdependent national movements for sovereignty in one land.

And emerging realities in the region -- demographic trends, significant changes in the future Arab-Israeli battlefield, and the spread of religion-based extremism -- threaten to exacerbate the situation in ways dangerous to regional and global stability.

There is, as I noted in the region, a need for all parties to shed illusions and abandon unrealistic visions about the future. We need instead to move on a realistic and pragmatic course toward reconciliation, accommodation and peace. In this respect, the American initiative remains the most workable and realistic basis on which to proceed:

- Its objective is comprehensive peace.

- It is grounded in United Nations Security Council Resolution 242 and its call for the exchange of territory for peace.

- It is designed to ensure real security for Israel and its neighbors, achieve legitimate Palestinian political rights, and give Palestinians control over fundamental political and economic decisions affecting their lives.

- It calls for direct negotiations between Israel and each of its neighbors, launched and sponsored by a properly structured international conference.

- It involves the creative interplay between transitional arrangements that change fundamentally and immediately the status quo and final status issues that will be part of a comprehensive settlement.

For this process to succeed, attitudes need to change, and expectations need to be aligned with reality. There is much work to be done to encourage these changes. The American initiative is a framework which needs to be elaborated; we intend to continue intensive contacts with the parties to do this. Practical steps on the ground can be undertaken to complement the formal process and improve the atmosphere; we are prepared to help shape this environment.

So, the United States will persist. We will remain heavily involved. We are confident of our initiative, confident of the desire of the parties to proceed and confident that the peace process can be carried forward.

Persian Gulf. In the Persian Gulf, sustained American commitments remain essential to international stability and Western economic interests.

The President's decision last month to respond in a firm and measured way to the resumption by Iran of minelaying, causing damage to a U.S. Navy ship and injury to its crew, served notice that Iran must pay for such reckless and provocative conduct. We do not seek a military confrontation with Iran, but we will continue to act with resolve to defend our interests. The bipartisan support the Congress has shown for the President's decision has sent a clear message to Iran that the American people are united in support of our efforts to defend freedom of navigation in the Gulf.

The President's decision to provide assistance to neutral merchant ships under certain circumstances is in keeping with our traditions as a maritime nation and our support for the principle of freedom of navigation in the Gulf. We will continue to coordinate our actions in the Gulf closely with our allies, many of whom have significant naval forces there, as well as with the Gulf states themselves, for whom the Persian Gulf is a vital lifeline. Our naval presence is not intended as a threat to anyone. But we will not tolerate the laying of mines in international waters.

During the Summit, we urged that the Soviet Union cooperate with efforts in the U.N. Security Council to bring the war closer to an end by imposing an arms embargo against Iran. We are continuing to work intensively in the Security Council to implement Resolution 598, which demands an immediate ceasefire and withdrawal without delay.

The use of chemical weapons against civilians and the continuation of the "war of the cities" between Iran and Iraq reinforces the need for accelerated efforts to bring this interminable conflict to an end.

The Western Hemisphere. In Central America, we must continue to work hard for democracy, development and security. The severe problems in Panama and Nicaragua should not obscure the fact that our longstanding efforts in the region have had impressive results.

Ten years ago, for example, Costa Rica was Central America's only civilian-led democracy. Today, the military dictators who ruled three of the other four countries are gone. These countries -- El Salvador, Guatemala and Honduras -- are moving in Costa Rica's direction, with increasingly open societies and with civilian presidents chosen in competitive elections. We believe that this trend is encouraging and it will continue despite political uncertainties like President Duarte's serious illness and the recent coup attempt in Guatemala.

Panama is a continuing threat to democracy and to our ability to stop the international drug traffickers. We cannot shirk our responsibility to defend ourselves against these threats. On May 28, we ended a prolonged effort to negotiate General Noriega out of power and out of Panama.

It continues to be our conviction that Noriega would best serve his country by complying with the instruction of President Delvalle to relinquish his post. The earlier Noriega leaves, the better Panama's interests will be served and a resolution to the political and economic crisis achieved.

We will continue to fulfill our obligations under the Canal treaties and cooperate with President Delvalle and his government. And, we are prepared to resume our working relationships with the Panama Defense Force once civilian government and constitutional democracy are re-established. Once Panamanians achieve these goals, we will work with them to help restore Panama's economic health.

In Nicaragua, for the last eight years, the Sandinistas have monopolized the government by combining brute force, cunning and a genius for propaganda. The return of Nicaraguan Resistance leaders to Managua for negotiations began a new and more political phase of the struggle there. Unfortunately, the Sandinistas made only vague commitments to discuss democratization and rejected a Resistance proposal for specific steps on democratization on an agreed timetable. We support the Resistance in their efforts to negotiate a settlement -- one that will ensure that the door finally opened by the strength and perseverance of the Resistance is not slammed shut. We intend to cooperate with the freedom fighters and with the four democracies in the region on how the United States can best further the prospects for both peace and freedom in Nicaragua.

In each of these cases, as elsewhere in the hemisphere, we believe that democratic leaders and groups are the key to success in combatting illegal drug dealers, communist insurgencies and other enemies of peace and freedom. We are proud to support their struggles.

Africa. In South Africa, our goal remains the rapid and peaceful demise of apartheid, the principal source of South Africa's problems and of instability in the Southern African region as a whole. To that end, we are working to foster a dialogue among all elements of South Africa's population that will lead to the creation of a democratic society with equal rights for all. At a time when the repressive actions of the South African government are stifling the interplay of ideas so essential for the evolution of a free society, and isolating South Africa from the free world, we must do all we can to keep dialogue alive and new ideas coming in. Despite the recent serious escalation of repression in South Africa, we remain firm in our belief that our goals can best be accomplished through a mix of diplomatic and political pressures on the one hand and a series of positive initiatives on the other.

Concerning Angola, we have been trying to reach an understanding whereby Cuban troop withdrawals will be accomplished and accompanied by South African cooperation in the implementation of U.N. Security Council Resolution 435, providing independence to Namibia. Linkage is no longer the subject of great debate.

A number of meetings have been held that have brought together the parties directly concerned in the conflict and they continue to discuss the particulars of a timetable for troop withdrawal.

We face a mounting tragedy in Ethiopia. As you know, we have provided food on a humanitarian basis to all Ethiopians in distress. We were dismayed by the Ethiopian government's curtailment of relief operations in the North and have actively sought resumption of a broad international effort. Some progress was registered by the United Nations in returning logistical experts to the North and we trust further such measures can be taken. We are working with the United Nations, our allies and the Soviet Union towards that objective.

Asia. The strength of our security and economic relationships in Asia will be crucial to regional security and global prosperity well into the next century. Of course, the cornerstone of American policy in Asia is our relationship with Japan, our principal Asian ally and largest trading partner, and our security ties with Korea, Thailand, the Philippines and Australia.

It is in Japan that our policy of encouraging democracy had its earliest and most spectacular success in Asia. Now, the remarkable worldwide trend toward democratic government has borne fruit in the Philippines and South Korea. Yet, we know that establishing democratic societies and open markets unquestionably remains a complicated, risky, inelegant process that is unique to every society that undertakes it. What is happening in Korea is not precisely what is happening in Singapore or in the Philippines.

That is why we must continue to help Asian societies defend themselves from challenges by the totalitarian left and the authoritarian right as they move toward pluralism, civilian rule and learn to engage in the rough and tumble of the democratic process.

We are cooperating fully with South Korea as it strives to host the 1988 Olympics in a secure and peaceful atmosphere. And we are assisting President Aquino in leading her nation in building democracy and accelerating economic growth as the Philippines contends with a virulent communist insurgency.

We are fortunate to have friends in ASEAN who share -- and who have benefitted by -- a commitment to open markets and representative government. Such regional associations hold the potential to become an important and effective new milieu for political and economic interaction in the world.

We must sustain our support for ASEAN and the Cambodian non-communist resistance in their efforts to bring about a political solution to the Cambodian conflict through a complete Vietnamese troop withdrawal from Cambodia and self-determination for the Cambodian people. Our bilateral relationship with the Peoples' Republic continues to develop in a positive direction. China's increasingly open economy and reliance on market approaches are contributing to its economic development and integration into the global economy.

Global Issues and Concerns. Promoting domestic prosperity is a central foreign policy objective. It used to be said that when the U.S. sneezed the rest of the world got pneumonia. Now, it works the other way too. Our own economic fortunes have always been closely linked to conditions in the world economy. This is especially true now that economic and technological changes have turned the world trade and financial system into a single, integrated global marketplace. A healthy, growing world economy is thus more than ever vital to our own prosperity. We have a stake in the strength not only in the economies of Europe and Japan, but increasingly in the economic health of the developing countries in Latin America, Africa, and elsewhere in Asia as well.

We face major challenges at home and abroad which we must meet by a firm commitment to market-oriented policies. We must sustain our resistance to protectionism.

As we have with the U.S.-Canada Free Trade Agreement and our far-reaching GATT proposals, we must choose the path which opens markets and increases the material well-being of all trading nations. We will continue to tackle these issues as well and seek to make progress at the upcoming Toronto Economic Summit.

We must also continue to support the economic and social development of friends and allies in Latin America, Africa, Asia and the Middle East. The tools at our disposal for this purpose include bilateral financial and technical assistance, training and active support for the important work of multilateral institutions such as the World Bank, the regional development banks, the International Monetary Fund, the United Nations Development Program, UNICEF, and the specialized U.N. agencies.

Equitable and sustained growth in the developing countries is crucial to achievement of our security, economic and humanitarian objectives. It requires internal structural changes in the economies of developing countries as well as outside support that encourages flows of trade, capital and technology. If it occurs, the prospects are good for prosperity on a global scale and for a continuation of the healthy trend we have witnessed in recent years towards strengthening of democratic and free market oriented institutions around the world.

And, the world community must work together to confront the dangers of terrorism and the broad range of threats to many societies posed by international narcotics trafficking. Each country must be prepared to marshal the means necessary to counter these assaults on human dignity and civilized society. I have committed the Department of State -- and you have my personal commitment -- to use every opportunity and all our resources to combat these twin scourges.

The Specifics of our Funding Request

This brief review of just some of the major issues confronting our world demonstrates the critical need for an engaged, active and effective America if this Administration -- any administration -- is to realize America's fundamental foreign policy objectives.

But, today, when our active engagement is more important than ever, a steady erosion of our resources and severe constraints on our ability to apply them effectively threaten our leadership position and our vital security, economic, democratic and humanitarian interests.

For foreign affairs, or Function 150 in toto, we seek $18.1 billion in discretionary spending authority for FY 1989, an increase of 2 percent over the comparable FY 1988 figure.

Foreign operations, the largest single component of our budget request, includes most forms of foreign assistance (excluding only PL 480 food aid). The funds we make available under this heading help our friends and allies, but, first and foremost, they serve America's own interests abroad.

We seek a total of $14 billion for foreign operations. The discretionary element, that is to say funding for everything except the Guarantee Reserve Fund and Foreign Service Retirement, totals $13.3 billion, or 73 percent of our entire request for foreign affairs appropriations. This also represents a 2 percent increase over the comparable FY 1988 level.

Let me reemphasize that this modest request in no way reflects any diminution in the scope of our foreign affairs interests, or in the depth of our commitments to friends, allies, and the international system. Rather, our very tight request reflects a compromise between our foreign policy needs and our recognition that we must play our part in reducing the budget deficit. In the future, we simply must find the additional resources we so vitally need if we are to sustain an effective foreign policy.

Let me try to put this discussion in a broader perspective by describing how the foreign assistance resources we seek serve our national goals and values -- and commitments to allies and friends.

National Security

As we have seen, the unwavering commitment of our allies to America's security -- and ours to their own -- is essential if we are to maintain the defensive framework which protects us all.

Many of our friends in the developing world lack the resources to see to their national security while at the same time they are struggling to provide for the basic economic needs of their own people. Because we know that they must do both if they are to survive and grow, we give these nations economic support and help them finance the modernization of their armed forces. We also provide defense and economic support to some of our NATO allies to help them to modernize their military forces and to grow economically. The enhanced capabilities which result from our assistance contribute directly to the common defense.

For FY 1989, our request for discretionary security assistance (including military assistance and the Economic Support Fund, or ESF) totals $8.3 billion. Of this amount, $5 billion is for military assistance (MAP, FMS, IMET and Peacekeeping operations) under Title III of the bill. That compares with $4.8 billion in FY 1988 and $5.1 billion in FY 1987

In percentage terms, the increase is under 4 percent; however, if the Congress refrains from the massive earmarking which characterized FY 1988 military assistance programs, we should be able to restore some funding to the dozens of key friends and allies whose programs had to be suspended in FY 1988.

Despite the small increase relative to FY 1988, what we are seeking for military assistance is still below the level appropriated in FY 1987. The reductions from the levels provided in FY 1985 and 1986 are even greater.

For the two major military assistance accounts -- Foreign Military Sales (FMS) and Military Assistance (MAP) -- we are requesting respectively $4.5 billion and $467 million. Due to the major debt burdens which many security assistance recipients face, we plan to provide all FMS (and ESF) resources on a grant basis.

The switch from credits to grants in our FMS program represents a major improvement in the quality of the assistance we are providing. By providing assistance in the form of forgiven FMS credits, those countries with the bureaucratic infrastructure capable of doing so will be able to apply FMS funding to commercial purchases, a process that is not possible under MAP, which is strictly government-to-government.

This all-grant program initiative is consistent with a trend which began in the Congress a few years ago.

In 1985, Congress for the first time permitted concessional, on-budget FMS programs. Two years later, it expanded this authority by authorizing the Administration to make all FMS programs concessional, except, of course, those programs for Israel and Egypt where repayment was forgiven. And in the current fiscal year, Congress again liberalized FMS by permitting partially forgiven FMS programs for Pakistan and Turkey.

Our present efforts to reinvigorate the Arab-Israeli peace process reflect the critical importance of the Middle East to the United States.

Israel and Egypt, two key partners in the Middle East process, will receive the largest component of our security assistance in FY 1989 ($5.1 billion, or 62 percent of the total), just as they have for the past several years. Our security and economic assistance programs to Israel and Egypt have played a key role in keeping peace in these areas.

In the West Bank and Gaza, our assistance is direct evidence of our determination to help produce a better life for the people of the occupied territories. Of the $12.5 million in ESF we seek for Middle East regional programs, $7.5 million will be channelled through private voluntary organizations in the West Bank and Gaza. And, of our $18 million ESF request for Jordan, $6 million is for development in the West Bank.

In addition to the funds for Israel, Egypt and the occupied territories, we are also requesting an additional $190 million in this bill in assistance for our close friends Tunisia, Jordan, Oman and Morocco, thereby furthering the prospects for stability and growth in the region as a whole.

Security assistance is also used to strengthen the defenses of friends and allies which provide us with access to military facilities in the interests of their own security and ours. During the past few years, and particularly in FY 1988, cuts which the Congress has made in our budget requests and extensive earmarking have combined to make it impossible for us to provide the level of support necessary for countries to perform effectively in the defense area. For Portugal, our assistance is well below the level we indicated to the Portuguese we would seek when we signed the current base agreement. Assistance to Turkey is already hundreds of millions of dollars below the level necessary if our Turkish allies are to meet their NATO commitments. Our assistance to Greece has fallen one-third below the level provided following the signing of our 1983 base agreement.

Our FY 1989 budget request will not enable us to make up for past shortfalls. But we must begin to reverse the downward trend. Therefore, for these three countries we are requesting $1.1 billion in FY 1989.

In the Philippines, because of the extraordinary challenges faced by President Aquino in recent years, we have been able to provide significant assistance levels that are crucial to the success of her programs. Despite budget stringencies, we cannot lose sight of the important mutual security interests at stake in the Philippines and that country's need for substantial support.

I would note that we are undertaking with the Philippine Government a five-year bilateral review of our bases agreement. We look forward to its successful completion to set the stage for an extension or renegotiation of the bases agreement.

Central America is of vital importance to the United States because of its geographic proximity and strategic position. We have long recognized that the best way to protect our interests in the region is to pursue a multi-faceted policy aimed at promoting regional security, democratization and social and economic development. We are requesting approximately $900 million in FY 1989 to serve these ends.

In the event the current efforts to secure peace and substantially ease the repression in Nicaragua fail, security assistance to the other countries in the region will be critical as a bulwark against spreading instability.

Promoting Prosperity and Development

Ensuring our domestic prosperity in today's increasingly integrated world economy requires us to do more than keep our own economic house in order. It means assisting other countries to develop their own economies. In this way, we develop in the global economy a growing demand for U.S. goods and services. American growth and prosperity is, more than ever, influenced by conditions abroad. I am not just speaking of conditions in Western Europe and Japan, important though they may be, but of those in the developing countries as well. These countries take over a third of our exports. The production of one out of every 20 workers in our manufacturing plants and one out of every 5 acres of our farm land is sold in Third World markets.

By promoting economic development abroad we make a direct contribution to our own economic well-being. Current economic stagnation in a large number of developing countries, especially those with heavy debt burdens, illustrates the point vividly and painfully. For example, between 1981 and 1986 many developing countries experienced sharp declines in their real incomes. Our exports to Latin America and the Caribbean dropped by over $11 billion. For the same reason, in Africa, our exports dropped by $2.8 billion. Over the same period, total U.S. exports declined by about $21 billion, all of which is accounted for by a drop in exports to developing countries.

In contrast, our significant role in the development of Pakistan has paid us dividends. In 1960, Pakistan's per capita income was barely $100. By 1985, Pakistan had more than doubled its income and had become a major purchaser of U.S. products. Since 1979, U.S. exports to Pakistan have risen by more than half.

We are requesting appropriations of $7.7 billion for multilateral and bilateral economic assistance programs. That constitutes almost 60 percent of our total discretionary foreign operations request. It includes Development Assistance, voluntary contributions to international organizations, assistance provided through Multilateral Development Banks (MBD's), the Peace Corps and other bilateral assistance programs, as well as $3.3 billion for the Economic Support Fund (ESF). ESF serves economic stability and development as well as security objectives.

For the MDB's, we are requesting $1.3 billion. The largest component, $958 million, will be used for a U.S. contribution to the eighth replenishment of the International Development Association (IDA). IDA is the "soft" loan window of the World

Bank which finances development activities in low-income developing countries and, sometimes in conjunction with the International Monetary Fund (IMF), supports essential economic policy reform in these countries.

I want to focus for a moment on the General Capital Increase (GCI) for the World Bank. Bank programs are essential both for Third World development and for Administration efforts to advance U.S. economic interests. This crucial link between the world's largest development institution and our own vital national interests is complex and poorly appreciated in many quarters. But the need to support the work of the World Bank and to maintain U.S. leadership in that institution is more pressing today than ever before. It is for this reason that, despite Administration support for the appropriations bill recently passed by the House, we were very disappointed that no funds were included for the GCI.

Our support for the World Bank is much more than a humanitarian gesture. It is a sound investment in the future. The $70 million cost of the GCI in each of the next six years is our contribution to $75 billion in new Bank project lending and structural adjustment and policy reform programs. This expanded lending is a crucial component of the Administration's strategy of stimulating growth and addressing poverty and debt, especially in the highly-indebted, middle-income countries.

The U.S. is the only major member of the World Bank that has not yet authorized funding for the GCI. Our failure to do so would be directly contrary to our own economic interests, would threaten our position as the Bank's largest and most influential member, and would surely erode our influence in Third World nations that benefit from World Bank assistance.

World Bank President, Barber Conable, has warned that if we do not contribute to this capital increase, our voting share in the Bank could drop from just under 20 percent today to 11 percent by 1993. I, for one, do not want to see this happen.

U.S. influence within the World Bank has been strong, far-sighted, and innovative. This Administration, like its predecessors since the time of Franklin Roosevelt, is serious about its responsibilities. We have worked hard and constructively to ensure congruence between our interests and values and those of the Bank. Among other things, we have:

-- encouraged the Bank to increase its support for the private sector;

-- entrusted it with a key role in managing the debt crisis;

-- fostered respect within the Bank for environmentally sustainable development and cultural sensitivity;

-- initiated a thorough review of the Bank's policy-based lending;

-- taken firm steps to ensure that our producers are not unfairly disadvantaged by competitors in the Third World;

-- ensured Bank support for nations where democracy, free enterprise, and our own security interests are at stake. Here I would note that the bulk of World Bank lending goes to important friends of the U.S. such as Pakistan, Brazil, Turkey, Thailand, Indonesia and the Philippines.

In short, this Administration has protected the interests of the American people and of the peoples of the Third World who look to us to lead the World Bank. Our contribution to the Bank has been immense. The benefits we receive in return are no less substantial.

I will repeat once again: The need for the U.S. to support the work of the World Bank and maintain our leadership in that vital institution has never been greater.

Because of the Budget Summit ceiling, none of the funds we are seeking for the MDB's will be used to pay U.S arrears (currently about $400 million in all) to the World Bank Group or any of the regional banks. MBD arrears raise serious questions about our credibility. We will have to address this problem in FY 1990. But for the present I think it is crucial to use our limited resources to enable the World Bank to expand its support for programs which enhance the prospects for sustainable growth in the developing countries.

For ESF, we seek only a modest increase of $80 million, or 2.5 percent, but we ask Congress to refrain from the massive earmarking which required us in FY 1988 to eliminate funding for numerous countries, particularly in South America and the Caribbean. Our allocation of the ESF request would allow resumption of important programs in Jamaica, the Dominican Republic, Ecuador and throughout the region.

In addition to ESF and support for the Multilateral Development Banks, economic assistance takes other forms.

o Development Assistance ($1.6 billion, including the new Development Fund for Africa) to fund projects administered by the Agency for International Development (AID) in such areas as agriculture, education and human resources development, health, nutrition and private sector development. These projects promote equitable, self-sustaining growth.

- Funding for Peace Corps programs ($150 million).

- Voluntary contributions totaling $200 million to such international organizations as the U.N. Development Program ($110 million) and UNICEF ($31 million).

Our domestic prosperity is also furthered by helping U.S. exporters compete with financing arrangements offered by foreign governments.

For this purpose, we are requesting $705 million for the Export-Import Bank's direct credit programs. These programs provide U.S. exporters the financial support they need to match foreign officially-supported export credits. EXIM financing is also critical in markets in which commercial financing is limited or unavailable because the risk is too great for commercial banks.

Promoting Democratic and Humanitarian Values

The American people fully support our efforts to strengthen democracy around the globe. The United States has a vital stake in promoting democratic values and supporting new and growing democracies. Democratic institution building is a slow and difficult process. Fragile new democracies face daunting political, economic and military challenges. We must help them with more than mere words of encouragement.

In Central America and the Caribbean our support for democratic forces has shown good results. Democratic institutions are taking root in countries where just a few years ago many despaired of that ever happening. These new democracies desperately need our help. The President's Caribbean Basin Initiative, and his Central America Initiative, which is based on the recommendations of the National Bipartisan Commission on Central America, provide comprehensive strategies for such support.

For FY 1989 we are requesting $643 million in economic assistance (not including PL 480 food aid) for the countries of Central America and $148 million for those of the Caribbean.

The United States is never more true to its most cherished values than when we defend human rights and humanitarian values abroad. In our turbulent and often cruel world, the defense of human rights means more than just speaking up, although speaking up in itself is important. We must also provide funds to help refugees fleeing oppression and people deprived of their fundamental rights or devastated by want and disaster.

Over the past few years, the assistance we have provided has meant the difference between life and death for literally millions of Africans who faced the worst drought and famine the continent has experienced in this century. During the crisis, the United States provided 2.2 million metric tons of food aid at a cost of over $1 billion; another $150 million was spent to provide medicines, shelter, wells, and the other immediate needs for those worst affected by the drought. This was all in addition to the regular economic assistance we provided during the same period.

Similarly, we assisted Colombia at the time of its volcanic disaster, we contributed to major earthquake relief efforts in San Salvador and Mexico City, and we helped to combat locust infestations in 17 African countries. Our support for the World Health Organization and UNICEF has helped rid the world of some of the most deadly and contagious diseases and has dramatically reduced infant mortality.

We can likewise be proud of America's record of assistance to the world refugee population. Through our refugee program we are assisting other nations to provide first asylum to over 12 million refugees. Additionally, we are assisting several million civilian victims of conflict in their own countries. And we are bringing to this country tens of thousands of people who are of special humanitarian concern to the United States.

For FY 1989, we are requesting $340 million for Migration and Refugee Assistance, less than $2 million more than the FY 1988 appropriation. Of that total, we plan to allocate $197 million for relief assistance for refugees in first asylum camps around the world administered by such agencies as the UN High Commission for Refugees, the International Committee of the Red Cross, the UN Border Relief Operation and the UN Relief and Works Administration for Palestinian refugees. Special attention will be given to the international effort to assist in the repatriation of refugees to Afghanistan and to multilateral programs to address the humanitarian needs of refugees from crises in the Horn and in southern Africa.

The Department's FY 1989 request includes $115 million for refugee admissions. This request level will finance 68,500 refugee admissions -- the same number as originally estimated for FY 1988, owing to the implementation of strict economy measures to reduce costs.

As you know, the President -- after consulting with the Congress -- has just authorized an additional 15,000 refugee admissions to accomodate the growing numbers of Soviet and East European refugees who need to be admitted to the United States, bringing our FY 1988 worldwide admission ceiling to 83,500. We are not requesting supplemental appropriations to finance this increase, but are looking to rely on existing resources. It is possible that we will have to consider admitting additional refugees again in FY 1989.

Combatting International Narcotics Trafficking and Terrorism

Since 1981, stemming the flow of narcotics into the United States has been a foreign policy issue of the highest priority for the Reagan Administration. As we have seen graphically in Colombia, and most recently in Panama, international narcotics trafficking poses a threat not only to the health and welfare of our citizens, but to the security and stability of democratic governments throughout the world. And the threat continues to grow.

For FY 1989 we are requesting $101 million for international narcotics control.

This INM budget includes $32.6 million in direct assistance to Colombia, Bolivia, Peru, Ecuador and Venezuela. Our narcotics control strategy gives top priority to helping key Latin American and Caribbean countries stop cocaine production and trafficking. Airlift capacity -- meaning helicopters and planes to support aerial and manual eradication of coca and for transporting police and paramilitary troops on raids against cocaine labs -- is crucial in the Andes. We plan to use another $18 million to provide aircraft and maintenance support.

These programs constitute only a part of our total effort to control international drug trafficking. Our direct assistance to many foreign governments and private self-help organizations also helps them carry out public awareness programs and projects to find ways for farmers who now depend on drug crops to earn legitimate incomes.

International terrorism, like international narcotics trafficking, offends the most cherished humanitarian values of democratic societies and poses a serious threat to international stability. Through long and often bitter experience, we have developed policies to deal effectively with this modern day barbarity. We now have a better understanding of terrorist methods. We are working closely with other countries, in part by pooling intelligence resources. We are also working to persuade countries reluctant to cooperate in combatting international terrorism of the error of their ways. We are providing training and training-related equipment to those with the will but not the means to cooperate.

We have strengthened security measures to protect our citizens at home and abroad. And, we have gone on the offensive to bring terrorists to justice, disrupt their operations and destroy their networks. But we must remain prepared. For example, as Ambassador Bremmer mentioned in more detail in his testimony before you last week, we must be vigilant given indications of increased activity by Libya.

In 1987, we counted 832 international terrorist incidents. Among the casualties, over 600 were killed and 2,200 wounded. These figures tend to understate the actual level of terrorist activity, since incidents confined to one country, with the nationals of only one country involved, are not included.

U.S. programs to enhance the counterterrorism skills of other nations consist of training and provision of equipment and logistical support. These efforts are coordinated by the State Department, and are carried out by the Departments of State, Defense and Justice, the intelligence community and other concerned agencies. For FY 1989 we are requesting $9.8 million to continue the Department of State's Antiterrorism Assistance Program. With these funds we will be able to train some 1,500 security officers from around the world in a variety of antiterrorism skills. These officers will be selected for training because they have major responsibilities for the security of embassies, Americans living abroad and travellers. They will join a group of nearly 6,000 other officials from over fifty countries who have received antiterrorism training during the first four years of this program, and who are now cooperating with us in our counterterrorism efforts.

The Need for Resource Flexibility

To meet all of these major foreign policy objectives, we will need more than your support for our total funding request, which, as I have indicated, is already at the bare-bones level. We will also need legislation that gives us the latitude to manage our very limited resources effectively.

The Continuing Resolution for FY 1988 did not give us that latitude. In the security assistance area, almost 95 percent of the total appropriation was earmarked for particular countries or programs. Of course, in many instances Congressional earmarks were consistent with the levels we recommended, representing a congruence of views between the Administration and the Congress regarding the priority of particular programs. But the overall effect of massive earmarking in the context of sharp cuts across the board was to place the burden of those cuts disproportionately on programs which had to be funded from the 5 percent of the budget which was not earmarked. We were forced to cut drastically ESF, MAP and/or FMS programs to such staunch friends as Turkey, Portugal, El Salvador, Honduras, Jordan, Kenya, Somalia and Zaire.

Moreover, we had to suspend entirely programs in a whole host of other countries, particularly in South America, the Caribbean and Africa.

For FY 1989, the Executive Branch and the Congress reached agreement in the Budget Summit which rules out cuts in our request. Even so, earmarking would create major problems since it would deprive us of the already limited flexibility we have within our very tight budget to respond to an ever changing international environment. This holds true even if earmarks do not exceed the amounts we are requesting.

On the other hand, if we are given the needed flexibility, within limits, we will be able to respond to changing circumstances. Moreover, the level of funds in the budget request for FY 1989 will enable us to reconstitute on a modest scale many programs we had to curtail or cut off this year. And, what is the alternative? Can we withdraw our support for long from so many areas of the world and still promote our democratic values, and ensure our security and prosperity and that of our friends and allies around the world? My answer is an unequivocal no. We could debate the point here in the comfort of a committee room. But out there in the world, I can assure you that we will not have the luxury of making the wrong choice.

Conclusion

As you can see, our foreign affairs agenda is a full one. The daily effort to defend our security, to establish more stable and workable relations with our adversaries, to ensure continued economic growth and to achieve negotiated settlements in strife-ridden areas is a costly exercise. But, instability, stagnation, repression and war are even costlier, and not just in monetary terms.

And now, I would like to draw your attention to the American eagle on the seal of the United States. I am fond of pointing out that our internationally recognized symbol is clutching an olive branch in one set of talons and a bunch of arrows in the other. The eagle's head is turned in the direction of the olive branch. Our far-flying eagle is grasping both olive branch and arrows because America must commit military strength to the service of peace if we are to remain true to our values and advance our interests abroad.

The message I want to leave with the Committee today is this: we must not allow the American eagle to become so undernourished or so encumbered in her flight that she looses her grip on either the arrows or the olive branch. Neither this Administration nor the next one can afford to let that happen. Far too much is riding on her wings.

In closing, let me say again that if we fail to provide the resources that give substance to our words, lend credibility to our commitments and permit the effective execution of our plans, we will be shortchanging our most fundamental national goals and interests. My colleagues and I recognize that we must have the cooperation of Congress to achieve all our foreign policy objectives. We are committed to working with you and we welcome your close scrutiny of our budget proposals.

MILITARY AID AND BASE ACCESS RIGHTS

Senator INOUYE. If I may, I would like to do some business now.

Secretary SHULTZ. I was afraid of that. [Laughter.]

Senator INOUYE. This paragraph appears on page 216 of our Committee Report.

> The Committee wants to make it unmistakably clear that it will not be a party to a military aid bidding war involving military base access rights. The United States does not pay friendly or allied nations for the right to advance the collective security interests of the Free World. There are shared costs and benefits in an alliance or partnership relationship with the United States. There is also no more pernicious concept than the view that the United States must pay some form of military assistance to a friendly nation for the right to protect it.

Do you have any thoughts on that, sir?

Secretary SHULTZ. I agree with that wholeheartedly, absolutely.

It has always seemed to me that the concept of rent for bases is a concept that we simply have to reject because it is at odds with the spirit of what you read out.

When we have a base somewhere, that must be because our friend and ally involved thinks it is in their interest as well as ours. And then the arrangements about that base vary tremendously from one country to another. In some cases, it is accompanied by support from us, security assistance and economic support funds that are appropriate, particularly if the country is a country with a very low per capita income and an inability to do what we think is in their and our security interests.

In other places, the country is a very wealthy country, and basically provides the base and contributes a lot of money. So that the arrangements vary tremendously and change from time to time.

But I think the concept always has to be that we are there because we are wanted, and because we want to be there. And then, on the basis of that shared purpose, we work out some arrangement about costs that suits the situation. That has to be the concept.

So I agree wholeheartedly with the statement you read out.

MILITARY ACCESS NEGOTIATIONS WITH THE PHILIPPINES

Senator INOUYE. Keeping that in mind, could you share with us, to the extent possible—I realize that negotiations are ongoing—your thoughts on our negotiations with Greece and with the Philippines.

Secretary SHULTZ. Well, I don't want to get into the details of them because, as you point out, we have ongoing negotiations.

In the case of the Philippines, we have had this very argument that your statement brought out. There are those in the Philippines who think that they have a great asset there and they should rent it out to us for a staggering sum of money.

We have told them that we just don't accept that concept at all, and if that is their view, we will have to find some other place to have our ships, our planes, and so on, because we only want to be at a place where we have an ally that wants us there. Then we will figure out, as I said, how to share that.

So, we are having an argument and, to some extent, it is an argument about concept. We will stick to our position and, if we have to find other places for our ships and planes, we can do it, although those two bases, Subic and Clark, are essential.

NUCLEAR DETERRENCE

There is also, Mr. Chairman, a nuclear component to this. Nuclear deterrence is an essential ingredient in keeping the peace. We know that. The idea of a nuclear explosion anywhere is not an idea that anyone wants to contemplate at all.

The President and the General Secretary have shared the view in writing that a nuclear war can never be won and must never be fought.

Nevertheless, it remains the case that there are large nuclear arsenals and maintaining them, keeping them up to date and having them deployed, is an essential ingredient in our deterrence of war as the world is now organized.

Therefore, those who benefit from freedom and democracy and realize that they have to take part in defending it we think need to recognize this fact. And so, if a friendly country, as the Philippines, should pass legislation or take some action, as New Zealand did, that says that a ship that might have a nuclear weapon on it is not welcome, then we have to part company, because it is essential that we protect our basic policy of not confirming or denying the presence of nuclear weapons on a ship.

So, we also have thatargument going in the Philippines. I hope that that will be resolved satisfactorily. We struggle with it always because people are understandably nervous about nuclear weapons.

On the other hand, they would be even more nervous if the other side had them and we did not. So, we have to keep up our capacity.

Those are dimensions that we are struggling with there.

NEGOTIATIONS WITH GREECE, SPAIN AND PORTUGAL

In the case of Greece, we have a very delicate, ongoing relationship in the bases, and I believe in the end that it will be resolved satisfactorily. I really don't want to try to comment in detail how we handle the Hellenikon issue and things of that kind. But I think that those are issues that we can manage.

We also have a base negotiation that I hope is about concluded with Spain. We have a situation with Portugal that gives me a lot of heartburn because the Portuguese are wonderful allies. They are very cooperative with us, very forthcoming, and our assistance levels to them now are far below what we pledged as our best efforts.

I might point out, Mr. Chairman, that that money flows principally not to continental Portugal but into the Azores, where we have a major presence that is absolutely essential to us, and where their alternatives are minimal.

So it is, I think, not at all in our interest to fall continuously short of our best efforts pledge to Portugal, particularly as it affects the Azores.

ELECTIONS IN PAKISTAN

Senator INOUYE. Mr. Secretary, about 2 weeks ago President Zia of Pakistan ousted the Prime Minister, Mohammed Khan Junejo, I believe his name is.

Secretary SHULTZ. Yes, sir.

Senator INOUYE. He said that as a result of a breakdown in law and order this step had to be taken.

President Zia announced that elections would be held and a new Prime Minister appointed. But a new Prime Minister has not been appointed, and the new election date has not been announced.

Can you tell us anything more than that?

Secretary SHULTZ. Well, I think you have described the situation. I cannot offer any truly confident insight into exactly what the reasons were for those developments. We can speculate about them.

President Zia has been a very strong friend and a very strong person in connection with our joint efforts with respect to Afghanistan. He has managed the move toward democracy in Pakistan. We would hate to see a step backward from that. We trust that an electoral process will move forward reasonably promptly, and we urge that.

Senator INOUYE. I am going to limit myself to 10 minutes on this first round.

I would like to now call upon Senator Kasten.

DEVELOPMENTS IN NICARAGUA

Senator KASTEN. Mr. Chairman, thank you.

Mr. Secretary, what is your prognosis of the ceasefire and peace negotiations which have now been halted in Nicaragua, and will the administration be requesting military aid to the Contras?

Where do we stand in terms of the next step in Nicaragua?

Secretary SHULTZ. Well, I think what we see is that, as the pressure of being surrounded by democratic governments has been more and more evident, as the pressure generated from mismanagement of their economy has manifested itself, and as the Nicaraguan resistance, as of a year or so ago, was giving an increasingly good account of itself so that they constituted a genuine challenge to the regime, we saw the emergence of what looked like and what we had hoped for, a negotiated outcome that would move Nicaragua into a situation where it had a more pluralistic, more democratic form of government, more openness, freedom for the press, freedom of assembly, an end to taking political prisoners, and so on. That is what was promised at the Esquipulas meeting of just about a year ago.

We have since seen various kinds of negotiations within Nicaragua, between Nicaragua and the resistance. We have seen the Sapoa agreement and we have seen the subsequent negotiations in which the resistance met with the Nicaraguan Government and tried to pin down the nature of a ceasefire and the nature of what would happen when a ceasefire took place, in the way of concrete things that would move the situation toward democracy.

They have not been able to extract from Nicaragua those concrete things. All they get from Nicaragua are promises. What is needed are actions, and the track record of that regime of not carrying out its promises is practically unblemished. [Laughter.]

Secretary SHULTZ. So, it is a very frustrating kind of negotiation. And it is almost impossible to avoid the conclusion that the tactic of the Nicaraguan Government is to put up an appearance of negotiation and to string these things along until the Nicaraguan resistance forces atrophy through lack of support. We simply cannot allow that tactic to succeed.

What the administration will propose, what the people in the Congress will think is appropriate under the circumstances, has not been determined, obviously. And we have to do this in consultation.

My own view is just having a vote so people choose sides does not get anywhere because it is not what we are looking for. What we want to have in Central America is the kind of governmental situation that we all would applaud. And, in order to get there, there are some things that we need to do. But right now, particularly since the House voted last February against the modest request the President put forth then, the situation has been deteriorating.

So, we want to find our way to a request which can succeed, and a request that gives the Nicaraguan resistance the stature that means they have to be paid attention to.

So, I am not really answering your question directly, because we are discussing it, consulting with our friends in the Senate and the House and trying to figure out what will work.

Let me say that, as I look around the world, I think our foreign policy interests are being well served almost everywhere. That does not mean there are not lots of problems. But, basically, we have a pretty unified view and we are doing all right. Things are going more or less our way. The only exception to that is in Central America, where we just tear ourselves to pieces.

FUNDING FOR SOVIET AND EASTERN EUROPEAN REFUGEE PROGRAMS

Senator KASTEN. I want to ask one other question about Central America, Mr. Secretary. But first, I just want to make a comment.

You brought up Ida Nudel and the whole issue of Eastern European refugees going to Israel.

The administration has cut by 60 percent, from $25 million to $10 million, the program which funds Soviet and Eastern European refugees going to Israel. It seemed to us—and we had Jonathan Moore of the Refugee Bureau before us a week or so ago—that that was just in direct contrast to the fact that we are making progress now with the Soviet emigration and that that was one of the parts of the negotiations that have been going on over the past several months and one of the real pluses.

So, as we are increasing the Soviet emigration, we are cutting by 60 percent the program which is designed to fund and assist that.

We, in the committee, did not feel that was consistent.

Why was there such a significant decrease from last year's level in this important program?

Secretary SHULTZ. In fiscal year 1989, we asked for the same amount of money that we had asked for in the previous fiscal year. The Congress bumped it up. We think that the figure we asked for is the amount of money that is usable. And, of course, you are playing a zero sum game here. If you put $15 million here (indicating), you take $15 million away from somewhere else (indicating). And the whole refugee budget situation is a very constricted one.

I believe, myself, that we have to maintain a very positive approach to the question of refugees from the Soviet Union and Eastern Europe. We have pushed so hard for so long on that issue that now, as we see things beginning to break somewhat, we just have to stay there. But I believe I am correct in saying that this $10 million is our estimate of the amount of money that can be used effectively. And, to budget money and put it there if it can't be used effectively just denies you resources for other places.

We have built into the refugee budgeting process, with Chairman Hatfield's support and others' support, a reasonable amount of flexibility. So, I think if we were to see that more money is needed in this account, and we could come and demonstrate that, we probably could reshuffle the funds somewhat.

But I think the answer to your question is that we think this is an adequate sum.

Senator KASTEN. I just would remind you, Mr. Secretary, that the number was $25 million in 1987, and it, evidently, was used. We appropriated $25 million in 1988, and it, evidently, has been used.

It just did not seem to me to be consistent, when we are making this significant breakthrough in terms of Soviet emigration, to at the same time be going back.

I understand the zero sum game business. All of us, as appropriators, have learned to understand it.

RESTRICTIONS ON ASSISTANCE TO EL SALVADOR

I have one final question, Mr. Secretary.

As you may know, there has been some discussion in the Congress, and in this subcommittee, and also in the House of some kinds of restrictive requirements on our assistance to El Salvador, with the intention, in general, of working toward some kind of negotiated settlement with the rebels.

Could you tell us whether you feel such restrictive language would be helpful or not helpful for El Salvador?

Also, could you just briefly bring us up to date on your assessment of the problems in El Salvador today?

Secretary SHULTZ. Well, I don't think it would be a good thing to put restrictions on the flow of money to El Salvador. El Salvador is in the process of developing its democracy and its pattern of adherence to the rule of law. I think no one has worked harder than President Duarte in trying to find his way to a negotiated settlement with the insurgents in El Salvador. And they have consistently not responded well.

He has reached out to them in very human terms. I recall the account of one meeting in which he was present. You will remember that his daughter was kidnapped by the guerrillas, held for a while, and finally released. He was in a meeting room with some other people and he said, "I know that two of you here were involved in the kidnapping of my daughter, and I have it in my heart to forgive you. But you have to be responsive." And they were not.

So, at least as far as I can see, the problem in bringing about reconciliation, or whatever you might call it there, is not the fault of President Duarte. It falls on the other side.

And, to somehow tie the government up with some conditions on this score I think would not be right.

Now, of course we all know that President Duarte presently is suffering, and so, we want to keep faith with him. But I think that earmarking funds at this point is not constructive.

Senator KASTEN. Mr. Chairman, thank you.

Senator INOUYE. Thank you.

Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman. I know you are anxious to move the meeting and we appreciate the Secretary of State's detailed answers.

FUNDING OF MEDICAL TREATMENT FOR REFUGEES

Mr. Secretary, I would like to come back to the refugees for a second and also to your wonderful comments in which you said the greatest satisfaction that you had received as Secretary of State was to receive a call from Ida Nudel from Jerusalem.

One of the great pleasures that we have had is that a number of Soviet Jews have gotten out. One of your real areas of advocacy has been in seeing that Soviet Jews get out for medical treatment.

My question will go to funding, and I'd like to give you an example, recently, I know that you and the President and other State Department officials interceded with the Soviets on behalf of those who needed medical treatment. For that we are grateful.

Currently, there are several dozen citizens who have come to the United States. One, with great joy, is in Maryland—Zolda Tufeld, who is being treated at Hopkins. She was in intensive care for a number of months.

She has had three cancer operations, and the total cost of her treatment is going to be about $1 million.

We welcome Ms. Tufeld to Maryland, and we welcome her to Johns Hopkins. But the question soon arises: how will we, when people come under these circumstances, pay for their medical treatment? And because of the years of neglect that they received, they tend to be quite ill, as you know, and their illnesses require this type of extensive treatment.

Have you been able to pursue this within your programmatic activity? Do you have any thoughts on this?

We're never going to close the doors on anybody for money.

Secretary SHULTZ. I can't give you a sort of programmatic answer to the question, although it may be that I can do better for the record than I can off the top of my head. But it must be that the American people care enough about these things so that there will be responsiveness, not only through the Federal budget but in other ways as well. That is a large sum of money. And, since I am about to return to the private sector, I am becoming even more aware of how large these sums are, as I get out of the Federal budget thinking.

Nevertheless, somehow from the community, from the state, from the general flow of contributions that go into medical facilities and health facilities, as well as from the Federal budget, perhaps that is where these funds are going to come from.

In other words, I don't think we should always think everything has to come out of the Federal budget, much as we may want to. At the same time, we must, as you suggest, be ready to deliver on our promises. And when people come here for medical treatment, they, by and large, don't have funds to pay for it. We have to be ready to follow through.

Senator MIKULSKI. Mr. Secretary, I just want to be clear.

I know that neither you nor I, by my question, ever would want to imply that we would close the door to anyone for financial reasons. I used the Tufeld case as an example. We are honored to be able to treat her in Maryland. I used that as a case example.

I absolutely support your belief that it should be a public/private partnership to provide these services. But it would be most appreciated if, when you go back to your shop at State, your people could take a look at that so that medical institutions and communities who will be welcoming people will have guidance on what is the Federal role and then what will be the need for philanthropic contributions.

I think it would be helpful to have a bit of policy recommendations and some guidance for local institutions in place.

PROGRAMS FOR SOUTHEAST ASIAN REFUGEES

My next question goes to Southeast Asian refugees, and I thank Senator Kasten for asking about the Polish refugees.

In the past, we have turned to you and you have been very sympathetic to this. Now we are, once again, focusing on Southeast Asian refugees.

I wonder where we are in keeping the Khao-i-Dang camp open until the Congress and administration can come to an agreement on the refugee ceiling.

In your response to Senator Kasten you pointed out that we have a limit on refugees, and if you give to one, you take from the other. We understand that.

We are all trying to work out a ceiling. But, in the meantime, we have people in Southeast Asia, many of whom are at Khao-i-Dang. That camp is scheduled to close. I wonder what initiatives or strategy you have in that area.

Secretary Shultz. Well, our basic thrust is to say that we continue with our policy of being a country that will take people who are refugees, so that Thailand and other countries of first asylum don't feel that they are going to be there with very large numbers of refugees and thereby wind up rejecting the refugees.

So, we continue with that policy, obviously, and I think our numbers and budgeting as we started the year have been consistent with that.

What we find ourselves in is a dilemma because we see more refugees than were expected in some areas, particularly the Soviet Union and Eastern Europe. And, as we were discussing a moment ago, we don't want to in any way shift gears there, and we play in this zero sum game.

So, we are trying to see, as you know, if we can't push those numbers up a little bit and get around the problem in that way.

As to particular camps, such as what you asked about, I would like to respond for the record, if I could, because I do not have that material right in my mind.

Senator Mikulski. Thank you, Mr. Secretary.

[The information follows:]

CAMPS IN THAILAND

In December 1986, the Royal Thai Government [RTG] announced its intention to close Khao-I-Dang [KID]. The U.S. Government has repeatedly expressed our deep concern about the decision, as well as subsequent indications that this population would be moved closer to the Thai-Cambodian border.

We are encouraged by recent indications that the RTG will allow all Khmer legally registered at KID to remain in the camp for the indefinite future. Only those who are not registered residents will be sent to camps closer to the border where all other Khmer-displaced persons are housed. We will continue to monitor this situation closely.

We have nearly completed the processing of all Khmer who were legally registered at KID. To date, the United States has resettled some 145,000 Khmer refugees. The remaining KID population is made up primarily of those who were rejected when the initial wave of Khmer were processed in 1979.

FLOOR VOTE

Senator Inouye. May I interrupt?

I would just like to assure the Secretary that the members are not walking out on him. We are having a vote at this time.

Senator Mikulski. Mr. Chairman, I think that wraps up my questions. I will go to vote and will come back.

I will be moving to a HUD markup.

But, Mr. Secretary, even though this might be your last time testifying, we look forward to conversations right up to the last minute on how we can advance democracy.

Thank you very much.

Secretary Shultz. Thank you very much. I think those informal sessions that we have had are very valuable to me and I always welcome them.

Senator Mikulski. I like them best of all as well.

Senator Inouye. Senator Leahy.

SUCCESS AND FAILURES OF FOREIGN AID

Senator Leahy. Mr. Secretary, I, too, will miss having you here next year, probably more than you will miss having to come before us anymore. [Laughter.]

Senator Leahy. I understand that the distinguished Senator from Hawaii has mentioned that he will no longer chair this subcommittee next year, and I will miss him, too. I don't envy whoever has to take that over from him.

Mr. Secretary, I'm afraid we are going to run out of time because of the vote. I remember back in 1980, everybody ran against foreign aid. Our President did, Democrats and Republicans running for the Congress did; but, during the past 6 years, in fact during this administration, the total aid budgets increased 48 percent; military aid rose 51 percent; economic support funds rose 52 percent; AID development programs rose 33 percent; the State Department's budget 80 percent. The taxpayers are now spending over $13 billion in foreign aid every year. That is what the total government of my own State of Vermont will spend during the next quarter of a century.

We've spent about $100 billion in foreign aid. What would you say has been the biggest success of that and what has been the greatest disappointment?

Secretary Shultz. Well, I think, clearly, the success of it—and I don't think of it as "foreign aid." I think of it as basically "U.S. aid." It is designed to help us maintain our security, to help us maintain our prosperity, to help us uphold our values around the world, to help us in the fight against terrorism and against drug trafficking. All of these kinds of things are basically what that money is used for; and, from the standpoint of our diplomatic effort, to be part of solutions to problems everywhere. And there are problems that affect us.

So I think that we have seen quite a measure of success in these efforts. Over the 40-year sweep since World War II, it has been outstanding what the United States has accomplished, and, in a more narrow focus, also, in the span of years that you have identified.

Of course, we see things come about that cause us to have to spend more money. For example, you mentioned the State Department budget. The big surge in spending was caused——

Senator Leahy. Excuse me, Mr. Secretary. I would note that both the chairman and I now have 4 minutes to get to the floor, or 5 minutes, I see.

I wonder, Mr. Chairman, if we might just stop at this point because I do want to hear the Secretary's answer and would come back and finish up on that.

Senator INOUYE. Fine, sir.

Senator LEAHY. Thank you.

I really do want to follow up on this, Mr. Secretary.

Secretary SHULTZ. Let me just finish my sentence, though.

Senator LEAHY. Sure.

Secretary SHULTZ. The big surge of money came as a result of the physical security threats. We are all too familiar with the fact that we have those threats. And so, we have had a major security building program that has costs, in terms of the State Department's usual flow of funds, quite a lot. And that has made the percentage change be quite substantial.

Senator LEAHY. As the Secretary knows, especially in a number of specific areas, which we may not want to go into in open session, the Senator from Vermont has been a very strong supporter of those funds.

Secretary SHULTZ. Yes, you have.

Senator LEAHY. Thank you.

Senator INOUYE. Mr. Secretary, if I don't mind, I will keep you company.

Secretary SHULTZ. You don't vote?

Senator LEAHY. The Senator from Hawaii, who consistently gets 112 percent of the vote in his reelection efforts, does not have to worry about attendance record. [Laughter.]

Secretary SHULTZ. Well, merit does have its rewards, doesn't it, Senator. [Laughter.]

WITHDRAWAL OF PAKISTANI TROOPS FROM SAUDI ARABIA

Senator INOUYE. We recently received reports, Mr. Secretary, that Pakistan had decided to withdraw some or most of its 10,000 mercenary troops from Saudi Arabia, and I gather that this arrangement earned Pakistan about $300 million a year. My question is has this decision been made to withdraw these troops?

Second, if that is the case, will Pakistan be asking us to make up the loss of this revenue?

Secretary SHULTZ. I am not aware of that development, Mr. Chairman. But if it is so, and if they were to request us to bump up our assistance levels by $300 million, I think they would be wasting their time.

VIGILANTE GROUPS IN THE PHILIPPINES

Senator INOUYE. In recent weeks, I have received many letters from the Philippines and from other concerned citizens alleging that human rights violations in the Philippines have increased since the recent change of government. And they cite specifically the proliferation of vigilante groups which, apparently, have been receiving the support, the official support, of the Government of the Philippines. In fact, the Secretary of Defense mentioned the vigilante groups.

What role are we playing in this development of vigilante groups?

Secretary SHULTZ. It is a development that, at least as I would view it, has pluses, but it also has minuses. Vigilante groups are always a problem, I think, because they tend to take the law into their own hands, so to speak. And that can be a dangerous trend.

It seems to me what has happened is that President Aquino has increasingly recognized that the communist insurgency in the Philippines has to be dealt with with great severity and firmness. And she inherited from her predecessor a military that was not well equipped or able to handle this insurgency.

So, there was a tendency to reach out and try to find additional strength. No doubt, that is what led to the thinking about vigilante groups. But it is a development that I think everyone should be very wary of.

Senator INOUYE. If I may excuse myself, sir.

SALE OF WEAPONS AND AIRCRAFT TO KUWAIT

Senator KASTEN [presiding]. Mr. Chairman, thank you.

Mr. Secretary, there is increasing discussion and interest on the Hill with regard to proposals to sell arms and aircraft to Kuwait. I wonder if you could give the committee a brief assessment of the intentions of the administration with regard to sales of weapons and aircraft to Kuwait and, in general, the background and the justification for such sales.

Secretary SHULTZ. Well, Kuwait, as you know, is a small country in a very tense part of the world. They have aging aircraft, and they seek to replace them with modern aircraft. They have been shopping around, so to speak, for some period of time—18 months to 2 years—looking at various alternatives.

They have been urged by us to do their part in protecting themselves. Don't just look to us; look to yourself. Perhaps they can't do everything, but they can do some things.

And so, as they came to a conclusion about what aircraft they wished to purchase, they settled on the F–18. And the idea of Kuwait acquiring aircraft of that general capability was not something new. We had been working on that for quite some time.

Actually, I think, from our standpoint, we consider it something of a political breakthrough, that Kuwait is prepared to, in a sense, tie itself to our equipment by making this substantial and important purchase.

So, the administration has sent up the proposal on a so-called informal basis, with the intent to follow through on the proposal for Kuwait to buy the aircraft and the weapon systems to go with it that are needed to make it effective.

Obviously, what they need is equipment that will go from air to surface, whether it is the naval surface or tanks or whatever it might be. Their threat principally comes from Iran.

The F–18 is not an airplane that can make sorties to Israel. It's out of that range. And so, I think that is a point that is worth noting in all of this.

One addition point that I might throw in, though I recognize it is not central to the argument, is that, from the standpoint of the Navy, as I understand it, the addition of the volume to F–18 production that this sale would generate would reduce the cost per plane, including the cost to our Navy of the planes that they buy.

So, there is a side benefit to the Navy of some substantial sum of money, as a result.

RESETTLEMENT OF AFGHANI REFUGEES: BUDGETARY AND PROGRAMMATIC IMPLICATIONS

Senator KASTEN. Mr. Secretary, you spoke about the Afghan refugees. Is there any estimate about how much it is going to cost to work as a result of the Soviet withdrawal? What kind of funding do we now think the United States might be called upon to provide Afghanistan or the Afghanis, as they resettle back into their country? Do we have any estimate of how that process is going to take place and what kinds of requests might be coming from our committee with regard to that?

As you already pointed out, the refugee question is a complicated one and the refugee budget is an impossible one. This could turn out to be, it seems to us, a big chunk of money at one time or another.

Secretary SHULTZ. We don't' have an estimate to put before you. We have had a lot of discussion of the matter. And the United Nations is organizing itself, I think, very well, to work on this problem.

We have laid down some general points that I think are universally agreed to, such as the flows of funds would not go through the present regime in Kabul. They would flow through the U.N. agencies directly.

Second is that we have to watch the situation carefully and not get ahead of the game. There is no point in putting a lot of money out until it can be used effectively. At the same time, you want to structure it in such a way that you do encourage refugees when they decide—and I think it will be the refugees themselves that decide—when they want to return; you would structure it to encourage that process.

Those kinds of things are being talked about.

We have pointed out to those in the United Nations that we have talked to that the United States now does have a considerable flow of funds in support of the Afghan refugees, probably on the order of $120 million a year. And so, to a very considerable extent, it is a question of how you structure those funds. Obviously, a structure that was suitable a year or so ago may not be the right structure a year from now. So we have to have some flexibility there.

We have also been looking at Public Law 480 as a possibility for direct food aid. And we have found some there.

I have asked our Assistant Secretary for International Organization Affairs, Rich Williamson, to be in charge of coordinating this effort within the Department of State and across other agencies. And he has really taken hold of it and is working on it very hard. So we do have a focal point and a capable, engaged individual to be looking at this and looking at it carefully.

Senator KASTEN. The Senator from New Jersey is recognized for 10 minutes.

HUMAN RIGHTS IN ROMANIA

Senator LAUTENBERG [presiding]. Thank you very much, Mr. Chairman.

Mr. Secretary, I want to just talk for a moment about human rights issues. You have been a strong supporter. And I have been a supporter of your efforts. I want to discuss the current situation of human rights in Romania and our administration's policy on MFN for that country.

As you know, the House and Senate both voted twice to suspend MFN. And it was carried by overwhelming margins. I was one of the supporters of the suspension of MFN for Romania.

I traveled there this past year with the Helsinki Commission and was disappointed to see how cruelly the Romanian Government has treated the ethnic minorities there, Hungarians in particular, and also the German minority there. I want to ask you what might happen—that MFN status runs out in July, early July. Ceaucescu has said that he doesn't give a damn about it, that he is content to let it pass.

I want to ask you whether or not there is any intention by the administration to try to continue MFN for Romania. Are there any discussions going on now in that connection?

Secretary SHULTZ. No; we don't have any intention to try to continue it. It has always been a kind of balance of judgment because the regime in Romania, by our standards of human rights and performance, is a very repressive regime. And it has been that way for quite some time.

At the same time, as we have talked with them, there are various elements of their policy that have been seen to be advantageous. Most particularly, there has been, relatively speaking, a good record on Jewish emigration from Romania.

So, you have to ask yourself always that you get something, and at the same time there are practices there that you don't agree with. It has always been a very close issue, as I have seen it, and I think the balance of judgment now has come down on the side as you have identified it.

At the same time, of course, we will keep working the various issues as hard as we can with the Government of Romania.

I might just say that, in a sense, it has more and more seemed to me that the term "Eastern Europe" is a misnomer. It implies that all of those countries are the same. But what we see is that they are very different. And, as among them, Romania, on the scale of internal repressiveness, is probably the worst.

Senator LAUTENBERG. It's true, Mr. Secretary, that on the issue of Jewish emigration they have been reasonable. But I had a visit, along with, I think, several other Members of the U.S. Senate, by a high ranking foreign ministry person last year, and the question was asked about demolition of a practically ancient synagogue there to make way for development.

I was assured by the delegation then that they would not go ahead with the planned demolition, but, rather, would try to preserve it as an historical monument to the presence of Sephardic Jewry in that area.

Within weeks after they left here, they destroyed that monument, and have done so casually, indiscriminately, with other religious monuments in the area. Now they are about to demolish small villages that still have some homes, eliminating the teaching of the ethnic language, Hungarian in particular, wiping out these villages and forcing Romanian culture on them. The fact that they have been reasonable with one group does not, in my view, justify their mistreatment of others. I am sure you would agree with that.

Secretary SHULTZ. I agree with you completely about that.

MORE ON SALE OF WEAPONS AND AIRCRAFT TO KUWAIT

Senator LAUTENBERG. Mr. Secretary, I want to talk with you about another issue for a moment, and that is the notification for sale of F-18's to Kuwait with Harpoon, Maverick, and other missiles.

I have concerns about this sale, as do many of us. In particular, Senator DeConcini and I are working together to make certain that there are some guarantees in the event that this sale takes place.

We are concerned about the possibility that the effective combat radius of the F-18 for a ground attack mission could be extended in a way that would enable them to attack Israel from Kuwait.

What assurances do we have that that combat radius won't be extended? Do we have any?

Secretary SHULTZ. First of all, its range is not sufficient to conduct any sortie against Israel from Kuwait. We expect that it will be based in Kuwait.

Obviously, if Kuwait comes under attack from Iran, it is such a small physical space that they might want to disperse their aircraft. But, basically, that is the situation.

It is also the case that the F-18, as they are buying it, as equipped, has no refueling capability. It is not going to have its range extended by that means. So, in our judgment, this is a positive development, obviously, or we would not have sent up the proposed sale. It represents a step by Kuwait to undertake measures for its own defense, exercising its responsibility. And, from our standpoint, we consider it something of a political breakthrough, that they are buying U.S. equipment, rather than some of the alternatives.

I might say that the alternatives they have before them do involve aircraft with a range that could reach Israel.

There is one other factor, as I mentioned earlier, that I recognize is not a central concern, but apparently it does involve quite significant sums of money. And that is that the additional purchases of F-18's, in this case, mean that the cost per plane goes down, and that will have a helpful impact on the Navy's cost of purchasing these planes.

Now, I recognize that that is not the central concern here. Nevertheless, it is money, and it does help.

Senator LAUTENBERG. You are such a thoughtful Secretary of State that I know you would not be proposing that saving to be enough to cancel out some of the other concerns that we have. And though you say there is no provision for a refueling facility with these aircraft, are we guaranteed that there will not be extended range fuel tanks added? You said that in the event of an attack they might have to be based elsewhere. What assurances then do we have or does Israel have that they won't be deployed against them?

Can we get those kinds of guarantees in the agreement?

Secretary SHULTZ. Well, we will have to see about that.

Senator LAUTENBERG. I hope that we will have your support on that, Mr. Secretary.

Thank you.

Thank you, Mr. Chairman.

Senator INOUYE [presiding]. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

KUWAITI SALE

Mr. Secretary, picking up for just a very brief moment the subject raised by Senator Lautenberg on the proposed sale to Kuwait, I join in the concerns expressed by Senator DeConcini and by Senator Lautenberg. I was wondering why it might not be possible, because of the concern that always arises on proposed sales to the Arab countries about possible use against Israel, just to say, as a precondition or a prerequisite to Kuwait, or to other Arab countries, if you wish us to sell you this advanced kind of military equipment, please make a statement that you recognize Israel's right to exist.

That has been a very baseline consideration for a very long time, and it might go a long way in resolving some of the fears and concerns.

What would be wrong with just that simple request: If you want us to sell you our advanced military equipment, just say you recognize Israel's right to exist?

Secretary SHULTZ. Well, the whole peace process subject, as we all know, is a very difficult one. Insofar as I can see, the Arab countries by now do recognize the reality of Israel, and even in their various summits that is implied.

Trying to tie these arms sales directly into particular statements probably would be a pretty difficult thing to do, even though I don't have any doubt about the fact that Kuwait recognizes Israel is there and there to stay.

RESTRICTIONS ON U.S. ASSISTANCE TO NARCOTICS PRODUCING AND TRAFFICKING COUNTRIES

Senator SPECTER. Let me move on very briefly to another subject, Mr. Secretary.

There has been tremendous frustration on our efforts to limit the flow of drugs from foreign countries. This has been a subject of discussion when you have been here, repeatedly, since you first appeared in 1983. We have wrestled with the problem on the Foreign Operations Subcommittee to try to put some restraints on the aid which we give to countries where drugs are produced.

There are 17 such countries. We give them $1.3 billion in aid. The whole drugs issue has been of enormous concern. It may be, and I am personally becoming persuaded, that attacking the demand side might be more cost effective.

We had the hearings yesterday with Defense Secretary Carlucci on the difficulty of the supply side.

We are searching for ways to try to tighten the noose on the drug producing countries of Central America and South America so that we would cut off the aid if they don't do the right thing.

Now, those are generalizations which are very hard to specify, and you have responded in the past on this question in a very comprehensive manner, that we have to be engaged with the countries, that we have to help them develop, that if we cut off the aid, it is going to be counterproductive, and they are making best efforts, and there are certifications that will survey the situation.

Through all of that comes a conclusion, not only a frustration but a conclusion, that there are tremendous quantities of drugs coming in.

My question is have you given your personal attention to the issue to try, in a very concerted effort, to cut through as much of the underbrush as possible, to really see if there is not some better standard that we could apply which would recognize the problems we have in giving them assistance but still do something a lot tougher to try to get the flow of drugs into this country cut down?

Secretary SHULTZ. We have worked on it very hard. I have. And I feel passionately that this issue, along with the issue of terrorism, are two that somehow we have to get right up at the top of our priority list.

I mention the two together because I think you see them linked. And you see, particularly in the area of the world you highlighted, that the terrorists provide the muscle and the drug traffickers provide the money. It is a wicked combination that is difficult to deal with.

Now, when it comes to using our support funds as a kind of way of forcing or getting other countries to do more, it is a useful tool, but it is a tool that, it seems to me, you have to use very carefully. This is because you cannot help but feel in the end that what counts is the flow.

At the same time, our attention is directed at the effort, and we say what we want from other countries is a real, hard effort. And they are struggling, too.

Take Colombia, for example. As far as I can see, Colombia has been fighting this about as hard and courageously as any country. They have taken a tremendous beating in the process with, as you know, practically their whole supreme court wiped out in a terrorist attack, financed by drug traffickers, because the justices were in the process of extraditing some drug traffickers.

MORE ON AID TO DRUG PRODUCING AND TRAFFICKING COUNTRIES

There are many other things that I could identify. Yet I can't tell you that we have stopped the flow of drugs coming from Colombia. But they have made a big effort.

Now, you have to say to yourself where are we better off—continuing the effort, or saying you have not succeeded and, therefore, we are not going to help any more? I think where we see good faith efforts, we have to continue to help.

Some of these sums of money are staggering. The Bahamas is a very small amount of land territory, but a huge amount of space. Most of it is water, as we all know.

As I understand the figures, last year, with the cooperation of that government and, of course, the strong work of DEA and our Customs, and working with our mission there, we interdicted 5 billion dollars' worth of cocaine—5 billion dollars' worth. I don't know how much came through that we did not interdict, but $5 billion is a lot.

Now, what is the GNP of the Bahamas? I don't know the answer to that question, but it is probably somewhere between $1 billion and $2 billion. So you can see the weight of this money.

Now, I want to support your instinct about the demand side here because, if you just express this problem from the point of view of some of these countries, what they say is you, the United States, are ruining our country because of the demand for these drugs that you have put in place and which is leading, because of the immense profitability, to developments in our country that are ruinous for it. So, that is their side of the coin.

I think that the only approach that has a chance of working on this subject is a comprehensive one, that is international, that works on the supply side, but, first and foremost, works on the demand side. I think there is a lot more that can be done, even though I think that we are making some headway. There are some encouraging statistics.

But none of us has done enough about this problem, even though probably all of us have done quite a lot.

Senator SPECTER. Mr. Secretary, I would like to pursue that but I have one more question that I really do want to ask.

I would just hope that, beyond their best efforts, we somehow get to the stage of really demanding results.

Now I know that is a big leap, from best effort to results, but I think we just have to push there.

INTERNATIONAL COOPERATION IN DEALING WITH TERRORISTS AND DRUG TRAFFICKERS

The last question I want to ask you, Mr. Secretary, because of the time limitation, turns on your internationalization effort. I notice through the course of your statement on page 38 you talk of eradication and sharing information, intelligence resources internationally.

We have moved a good bit on our international extradition, on bringing people back to the country. We brought back Fawaz Younis and he is going to stand trial.

More recently, we have seen some problems with Mata, the drug dealer, on what happened when we brought him out of Honduras, even though we had the cooperation of the Honduran Government. There was a riot, and the embassy was under attack, et cetera.

We saw the case of the Achille Lauro, with Abu Abbas and the great problems caused with his situation, what Prime Minister Craxi did, then what Yugoslavia did. President Mubarak of Egypt has commented that that posed a real problem on U.S.-Egyptian relations because of an over-bearing sort of attitude, where we just sort of plucked those guys out to bring them back to the United States, although we have the right to do so under international law and our domestic law.

My question is would it be useful to really try to pursue an international mechanism for trial of terrorists, like Abu Abbas, or maybe like Mata, but Mata is different because he is a drug dealer, although it is somewhat the same; to try to paper over this terrible response that we get—and it is an understandable response—from the Hondurans on Mata, or from the Egyptians on Abbas, that the United States is simply being too over-bearing, although I think we have our rights, but to try to push ahead with an international tribunal for the trial of these kinds of international criminals?

Secretary Shultz. Well, it may be an important possibility.

You are a lawyer—and I must say I watched some of the hearings where you displayed your constitutional and legal expertise. And, like many others, I was impressed. So I don't want, as a layman, to make a comment about whether some mechanism for trial would be particularly suitable. You would be better able to judge that than I am.

But I do think that we are seeing—you have encouraged it—over a period of years now more and more usefulness of the rule of law in getting at terrorism and drug trafficking.

We have worked it on the extradition side and in many other respects, trying to move this aspect of the subject more front and center. We have seen a lot of terrorists tried and convicted in various places.

We don't have to do it all the time. And it is better, often, when other countries are willing to step up to it, as they increasingly are.

I hope that at the economic summit meeting coming up next week we will not only continue paying attention to the subject of terrorism, but also to this whole area of drug trafficking and drug use.

So, let me take your thought and ask my legal advisor, Judge Sofaer, to think about it and perhaps to talk to you about it. I am ready to consider anything that might help here. But I just don't have a good way of evaluating that suggestion.

Senator Specter. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator Inouye. Senator DeConcini.

ANOTHER TRIBUTE TO SECRETARY SHULTZ

Senator DeConcini. Mr. Chairman, thank you.

Mr. Secretary, I want to add my appreciation for the fine service that you have given to this country, particularly as you mentioned the bipartisanism of most foreign policy questions. A lot of that has to do with both you and the President, being sure that the line has not been drawn in the sand that if you are for this policy you are a good American and on the right side, and if you are not, well. You have been up here many, many times to brief the Members of the Senate and I, for one, appreciate that. I think for the most part, with the exception of Central America, it has worked well, and you deserve a great deal of credit for that.

MORE ON SALE OF ARMS AND AIRCRAFT TO KUWAIT

I want to return to the Kuwaiti sale. My understanding is that this is a $1.9 billion sale. The sale involves 40 FA-18 aircraft, 40 Harpoon missiles, 120 Sidewinders, 200 Sparrows, 300 Mavericks, 400 laser-guided bombs, and 200 cluster munitions.

What troubles me, Mr. Secretary, is that this type of package is intended for a country that is so small—only 2 million people and smaller than the size of New Jersey. It has a Palestinian population of 350,000. And the total population is 30 percent or more Shiite. It appears almost inconceivable that the administration would be requesting such a massive arms sale for a small country that has not been necessarily friendly to the United States except in most recent times when it has been very advantageous to get their ships in and out of the Persian Gulf.

It has created a legislature and popularly elected a 50-member National Assembly in 1985, as you know, and then suspended it in 1986. They have had a close relationship with the Soviet Union.

I fail to see what kind of confidence factors, except recently in reflagging the ships, that this type of sale is going to enhance for the United States. What makes the administration feel so comfortable all of a sudden? Aren't we jeopardizing, if they don't already have these weapon systems, that the Soviet Union will have very probable access to these weapon systems from the Kuwaitis?

Secretary SHULTZ. Well, first, we will have systems by which we safeguard and have understandings about the way in which these weapon systems are used and who has access to them and things of that kind.

Second, in terms of the sale itself, Kuwait is small. It is also very vulnerable, and it has been attacked. And so, I think it is appropriate for us to say to them you should defend yourself and prepare yourself to defend yourself; then deter that aggression.

So, it is not surprising, under the circumstances, that they want to acquire more modern aircraft as a principal thing they can use.

They do have alternatives to purchases in the United States. And, as I understand the alternatives, some would involve aircraft that have a much greater range than the F-18, but not as good for the particular mission that the Kuwaitis have in mind, which is an understandable mission.

Senator DECONCINI. What is that mission?

Secretary SHULTZ. The mission is that if there is an attack or an apparent attack that comes at them on the ground or on the sea from Iran—that is the aggressive country here—then they can do something to counter that.

Senator DECONCINI. Will the Kuwaitis use these arms to help protect their shipping and their flag ships in the Persian Gulf?

Secretary SHULTZ. Well, I would not expect that they would be flying missions out over the Gulf particularly with them, but I really can't answer that question definitively.

Senator DECONCINI. Do you envision, Mr. Secretary, that if this sale went through, there would be any less U.S. involvement in the Persian Gulf of protecting Kuwaiti ships?

Secretary SHULTZ. I think this sale should be welcomed as a measure of increased willingness of the states in the region to rely on themselves for all of the various deterrent things that we encourage in the Gulf.

We have seen an improvement, a sharp improvement, in our relationship with Kuwait, and an improved relationship between our military and theirs. I think these are things to be encouraged. And this sale tends to do that.

KUWAIT'S ROLE IN THE MIDDLE EAST PEACE PROCESS

Senator DECONCINI. Mr. Secretary, what have they done, specifically, if anything, in the Mideast peace process in which you have been so magnificently involved and determined to continue to be involved? Have they participated in any meaningful way? Is there anything you can tell us that they have actually done to contribute to this?

Secretary SHULTZ. I don't think they have been particularly prominent one way or another in the peace process. They have been part of the Arab center.

Senator DECONCINI. Do you know how much financial support Kuwait gives to the PLO?

Secretary SHULTZ. No. I don't have that number and I don't know whether the number is available. But, undoubtedly, they do give support.

Senator DECONCINI. Would you ask your office if they do have that number and share it with us?

Secretary SHULTZ. Yes, I will, if we have it. Those numbers are a little difficult to pin down.

Senator DECONCINI. I understand.

[The information follows:]

KUWAIT AID TO PLO

The Government of Kuwait permits a PLO office in Kuwait and gives some aid to the PLO; however, like the United States, Kuwait funnels aid directly to Palestinian groups in the Occupied Territories.

MAVERICK MISSILES FOR KUWAIT

Senator DECONCINI. Mr. Secretary, would you be willing in this sale to remove the specially threatening Maverick D and fast G missiles for your request to Congress?

Secretary SHULTZ. Well, the request is made according to what we think and the Kuwaitis think are the needed weapons to go with the airplanes. There is no point in having an airplane unless it has armaments on it, and that particular armament is an especially effective weapon system.

So I assume that is something that people do want to have as part of it. I will reflect on the hearing and take this back into our consultations. I don't consider myself enough of an expert on these weapon systems to talk definitively about it.

Senator DECONCINI. I know there were substantial objections and I believe—correct me—that the administration withdrew the sale of a number of Mavericks to Saudi Arabia because of Congressional concern and maybe administration concern once they looked into it in greater depth. I have that same concern here, particularly with this particular missile, the Maverick.

Secretary SHULTZ. I think in the case of Saudi Arabia—and I have to check my memory on this—I think they have had Mavericks and it was a question of additional ones in that sale.

Senator DECONCINI. That's correct.

Secretary SHULTZ. So they did have that weapon system to go with the airplanes. In this case, you are starting from scratch.

POSSIBLE SETTLEMENT IN ANGOLA

Senator DECONCINI. Mr. Secretary, to go to another question, you did answer some of this yesterday in our briefing, and I thank you.

I would just like, if you could, give us for the record a synopsis of where you think we are in Angola, with the Soviet Union, and what the commitment is of the administration as far as the UNITA forces being included in any type of settlement that is ongoing.

Secretary SHULTZ. Well, first of all, to take the last part of your question immediately, at least in my opinion, in our look at this, this puzzle will not fit together in the end unless there is an ongoing process of national reconciliation, which is what UNITA and Jonas Savimbi have been fighting for. We don't see how it can all come about without something of that kind happening.

We now see a change whereby the issue of so-called linkage is not being debated particularly. The idea of a complete Cuban troop withdrawal is on the table. The timeline and so forth is not satisfactory; but the concept is there, and it is on the table.

We have had one good round of discussions held in London under the mediation of Chet Crocker, with South Africa, Angola and Cuba participating. That had to do with the Cuban troop withdrawal, Namibia, 435, the whole set of questions.

We have talked a lot about the importance in all of this of national reconciliation with the Soviets and with others. And I believe there are some things taking place. We encourage the Soviets to keep pushing on their client in this respect.

We feel that our discussions with the Soviets on this particular issue have been reasonably good recently. So we will just have to see.

We hope for another round of negotiations soon. There has been some problem in settling on just where that would be.

It is also true, as you know, that there is a considerable troop buildup near the Namibia-Angola border involving a big surge of Cuban troop presence and exactly how that may play itself out with respect to South Africa and the interplay with negotiations I don't know. But it is worth noting that there is that military activity there.

I know of your interest in UNITA and Mr. Savimbi and I share it completely. I think it is essential if the Angola situation is to be settled that the interest that he represents be reflected in any outcome.

Senator DECONCINI. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator INOUYE. Senator Leahy.

MORE ON SUCCESSES AND FAILURES OF U.S. "FOREIGN AID"

Senator LEAHY. Thank you.

Mr. Secretary, just before I left for the vote we were on the point of what you felt, whether you call it American aid or foreign aid, that we have discussed here, what you felt was the biggest success during the time you have been Secretary and what has been your biggest disappointment.

Secretary SHULTZ. Well, I tried to indicate the general thrust of successes of, basically, American economic policy and leadership in the world and our assistance programs on the whole have played a big part in that over the years. I think that is a continuingly valid observation.

I suppose the biggest disappointment is when you find that some of the funds have been misused or abused. There is a big effort to keep track and not have that happen. But it does happen. And it is always disheartening because the money goes to people who are poor. You don't like to see it handled in any way that is basically wrong.

I do feel that a lot of progress has been made in a broader sense of seeing that it is used well because there has been a movement in concept about what makes for economic development, to a set of ideas that, it seems to me, have a much better track record of working. Those are things that encourage greater incentives, a greater use of market forces, sensible pricing, things of that kind.

So I think that there is progress there. But I would have to say that the occasional times when we see misappropriated funds makes me very blue.

Senator LEAHY. And it is an easy hit, too, if you are dealing with $13 billion worth of programs, to find $100,000 misused. None of us like that. You don't. I don't. Nor does anybody else. But I don't think, however, that those issues should override the successes. And there have been successes.

I agree with you there. I think there have been some significant ones.

MISSUSE OF AID FUNDS: IMPLICATIONS FOR MANAGEMENT AND TYPES OF AID

Secretary SHULTZ. Let me just put in a policy point on this question of abuse of funds. The more you worry about it, the more you insist on highly detailed procedures for doing whatever it is you are going to do, and intensive inspection.

Alan Woods, the Director of AID, told me the other day that we now have reached the point where the number of inspectors of the administration of the most recent aid program for the Nicaraguan resistance exceeds the number of people who are dispensing the money. So we constantly have that problem.

Senator LEAHY. Well, there is a reason for that, however. There has been a feeling in the Congress that not always has the administration been straightforward on the money going down to the Contras. Without rehashing all of that, there have even been discussions of that by other committees chaired by the distinguished chairman here. Everybody who has dreamed of Pulitzer prizes in the media has written about it.

So there is a reason for congressional skepticism. It's not for nothing that the administration has suddenly found a lot of people watching carefully money to the Contras.

Secretary SHULTZ. Now we talked earlier a little bit about the Philippines. And I know the chairman has been very much interested in this. We have been thinking about not only amounts of money, but the form in which it goes. If you compare the way we have money flow to Israel with the way we have money flow to the Philippines, we put a lot more confidence in the one case than in the other.

When your confidence level is low, then the administrative burden on the funds is high, and you don't have them flow as effectively. So you seek ways not to be quite so intrusive. I hope we can find ways to do that in the Philippines.

Senator LEAHY. That's why I say that I don't envy the next chairman of this subcommittee in trying to figure that out.

Secretary SHULTZ. A balance must be struck.

U.S. POLICY TOWARD PANAMA

Senator LEAHY. In your March 10 testimony before the House Subcommittee on Foreign Operations, you said that our policy in Panama is straightforward and consistent. Now there is an area where I disagree with you. There are a lot of areas where I agree with you, but I disagree there.

I think that the policy in Panama and the policy of General Noriega has been a humiliating failure. We propped up Noriega because he would do back-door deals for the United States on Contras. The Drug Enforcement Agency would send him letters of commendation, not because he was pristine on drugs. They knew that he was dealing with drugs. But every so often he would give them a drug dealer or point out a ship that they could seize, so they all looked good, and, as long as they looked good, that is the way he paid them off, by making them look good. They paid him off by closing their eyes to what he was doing.

Now we are in a very, very difficult situation. I think that he has humiliated us. To see this man, who has really stolen that country, stand up and start talking to us about what might be done and say, "no, I don't want to do that, offer me something else"—that is shameful. But there is nothing that can be done about what happened in the past. The real question is, what do we do with him now? How do we get him out of power and not just make some kind of paper shuffle which still allows him to control the country?

Secretary SHULTZ. Well, we do have an objective that I am sure we would agree on, namely, to get him out of power and out of Panama, so that the opposition forces or the political forces, I will say, in conjunction with the Panamanian Defense Force—don't walk away from them—can reassert themselves, and we can have a Panama that goes forward on a different basis.

That is the objective.

Now, how do we obtain that objective?

There are various possibilities. I don't want to go into a long dissertation about them. We study them, all the way from little things to big things. But I think the object has to be plain and the weight of responsibility of Noriega for the dire circumstances in Panama is pretty obvious to everybody. I think we just have to keep that weight there, along with other things that we may be able to do that get at him in a more particular way.

But I agree with you that having a person who has that much power in a country of the importance of Panama, having a person that is clearly identified with drug dealing in this day and age is not an acceptable situation. We cannot feel in any way satisfied or good about it.

Senator LEAHY. Mr. Secretary, there was a report in the press—and I have no way of knowing if it is true—that before the United States urged President Del Valle to dismiss General Noriega, the former presidents of, I believe, Costa Rica, Venezuela, and Colombia were already negotiating with him and he had agreed to leave by the end of this summer.

Is there any truth to that report?

Secretary SHULTZ. I think there have been lots of negotiators, so to speak, who have been working on it. But I don't think anyone has been successful in actually concluding an arrangement whereby he would leave, at least not that I know of.

Senator LEAHY. Did we talk with leaders in Central America first before urging President Del Valle to fire him? I mean, did we ask them if there was another way, rather than set up this confrontation of the United States, with 240 million people here, against Panama, which, some would say, puts Noriega in a David versus Goliath position? Did we talk with leaders in Central America about doing a multilateral, possibly behind-the-scene effort to get rid of him first?

Secretary SHULTZ. We have had lots of discussions with leaders in Central America and South America about the Panamanian situation. On the whole, there is a general view of great distaste for Noriega. It is not controversial. Nobody has much of a good word to say for him, except for Nicaragua and Cuba. They are the two countries that have immediately rallied to his side.

As to particular consultations about a particular thing that we have done, I cannot answer that question confidently, although I don't think it is necessarily the right thing for us to consult about, every tactical move that we make.

Senator LEAHY. I understand.

MORE ON U.S. POLICY TOWARD PANAMA

My last question is this. Taking just those areas of support of the United States for General Noriega that have been outlined in the press——

Secretary SHULTZ. Areas of what?

Senator LEAHY [continuing]. Of support of the United States for General Noriega during the past years, just those things that have been outlined in the open media, in hindsight—and every one of us is good in hindsight. The Congress has raised hindsight to an art form here. [Laughter.]

In hindsight, would you advocate that kind of support if we had it to do over again?

Secretary SHULTZ. As I understand the situation, while there were lots of allegations of one kind or another involving General Noriega, hard evidence did not become available until sometime late last year. So, in the meantime, we were dealing with a person who was there as legitimately as somebody could be there over a period of time. And so the various agencies involved dealt with him—the defense agencies, intelligence and drug enforcement, as you have suggested.

Just where you draw the line on what you are sure of and what you are not so sure of in constructing your attitude, I think that is a difficult question. Obviously the situation in Panama right now is very unsatisfactory. So we must have done something wrong. Otherwise, perhaps it would be better.

I am sort of dodging your question because I don't want to try to second guess myself or the people who are struggling in good faith in trying to make the situation go.

Senator LEAHY. I accept that answer. That is a valid answer.

I would only suggest this. You will be preparing all kinds of recommendations to your successor, whoever that might be. I would strongly urge you to have people go back and look through this for what went right and what went wrong. Even if it is done on an "eyes only" basis for your successor, I think you could do him a great service, and I would trust your candor in doing that, in telling him very specifically what went right and what went wrong, because things both went right and went wrong, as we know, and on some areas that we cannot discuss in open session.

I think that you could do him a great service with that.

Secretary SHULTZ. Well, I appreciate that suggestion.

We have been studying the question of how it is that countries go from an authoritarian kind of government to a more democratic kind of government. We can see, by and large, over the last 20 or 25 years a tremendous amount of success, a great deal of it very recent.

So we have seen a lot of success in South America, in Central America. In Europe, we saw Greece and we saw Turkey; we see Portugal, we see Spain. We see the Philippines, we see South Korea.

On the sour side, we see Cuba, we see Nicaragua, we see Iran. Panama is a case where there has been a transition that has kind of wanted to get underway, but we have not made it. In Haiti we saw a dictator removed. But certainly the situation is unsatisfactory there.

So we have a rich experience before us to study, and Panama is part of that picture. It is being studied and there have been some interesting thoughts coming out of that. But I think your suggestion is very well taken.

Senator LEAHY. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

CHINESE SILKWORM MISSILES TO IRAN

Senator INOUYE. Thank you, Senator Leahy.

Mr. Secretary, we are receiving reports that the Chinese are still actively supplying Silkworm missiles to Iran despite the assurances they have given us that this practice would be discontinued.

My first question is are they still supplying Silkworms to the Iranians? If so, what are we prepared to do?

Secretary SHULTZ. I have not checked this recently, Mr. Chairman, but it is my understanding that since we had certain pledges from them, they have not provided new Silkworm missiles to Iran. There may have been support for ones that have been provided earlier, although, basically, they have always denied they have provided any. In fact, on one occasion one of their officials told me they had not provided any and they wouldn't do it anymore. [Laughter.]

But I don't know of any evidence of a continued supply of that particular kind of missile. But I may not be as well posted as you.

We have made our views very plain to them as we have on other missiles. I might say that I consider it an irony, and one of the disturbing things around the world, that just as we and the Soviets are eliminating from our arsenals ballistic missiles that go from 500 to 5,500 kilometers, we see other countries who applauded us in doing that getting ready to produce them and the Chinese producing them and selling them.

So that is a reason why I think we must keep pushing on the idea of some sort of ballistic missile technology control regime.

NUCLEAR WARHEADS FOR CHINESE CSS–II MISSILES SOLD TO SAUDI ARABIA

Senator INOUYE. Earlier this year, we received reports that the Chinese had sold the so-called CSS–II missiles to Saudi Arabia. These missiles have a range of somewhere between 1,000 and 1,200 miles and can be made nuclear capable.

I have been told that the Saudis have assured us that these missiles will be used only for conventional warheads.

How can we verify this?

Secretary SHULTZ. We have gone both to the Saudis and the Chinese about these sales, and we have been given very unambiguous statements to the effect that only conventional warheads are there.

Saudi Arabia has decided now to join the Nuclear Nonproliferation Treaty. That will help in the general inspection possibilities in Saudi Arabia. But we have their absolute word for it, the Chinese word for it, and this prospect of adherence to the NPT Treaty by Saudi Arabia.

That is the basis for our current posture.

IMPORTANCE OF ASIA AND THE PACIFIC TO THE UNITED STATES

Senator INOUYE. Mr. Secretary, you have been sitting there now for 2 hours and 10 minutes, and in those 2 hours and 10 minutes, the committee has spent together with you about an hour and 50 minutes on Europe and the Middle East, about 10 minutes on Central America, and the remaining 10 minutes on the Pacific Rim, more specifically, the Philippines.

If someone were sitting in the audience, that person might get the impression that we are really not interested in the Pacific Rim. And yet, you and I know that for every jumbo jet that flies across the Atlantic, there are four that fly across the Pacific; that there is more business done in the Pacific than in the Atlantic; there are more people living on the Pacific Rim than you find in Europe and the Middle East combined.

What is this? Is this the attitude of the Government of the United States that Europe, NATO and the Middle East are much more important than what happens in the Pacific and the Pacific Rim?

Secretary SHULTZ. Mr. Chairman, I think we have to recognize that we are a world power with world interests, and we need to be engaged in a reasonably comprehensive fashion.

The point that you make about the importance of the Asia-Pacific area is one that I share wholeheartedly, as you know. And you and I have discussed it many times.

I look forward, for example, to my upcoming trip to that area. I always go there and try to emphasize the importance that we attach to it.

I expect, as I take up residence in San Francisco, as distinct from the East Coast, that the realization of the importance of the Pacific and Asia you see all around you on the West Coast, and, obviously, in Hawaii you are much more conscious of it.

But I think that we are more and more awake to and alert to developments in the Pacific. And we must be. But that does not mean that we should, in some fashion, neglect the importance of our European connections and our NATO alliance and the key importance of maintaining our deterrent capacity against the Soviet Union in Europe.

So it is a question of keeping all these balls in the air at once. It is a big task that our country faces. I think we are very much up to it. We basically have the capability, the resources and the ideas. The ideas we have stood for are the ideas that are making headway around the world. So we just have to stay engaged and stick with these ideas in Asia and the Pacific as well as elsewhere.

I think we will do fine. But I think your point is very well taken. I always try to redress the general tendency myself by putting a lot of personal emphasis on that part of the world. Among other things, I enjoy it out there.

SUBMITTED QUESTIONS

Senator INOUYE. Mr. Secretary, I have a whole volume of questions of a highly technical nature, which I would like to submit to you and your staff for your response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR INOUYE

SHULTZ REFLECTIONS ON YEARS OF SERVICE

SENATOR INOUYE: Mr. Secretary, at the end of this year I expect to be assuming the chairmanship of the Senate Defense Subcommittee. I will be taking to my new post the experience of fifteen years on the Foreign Operations Subcommittee where I have come to know, in stark detail, many of the intricacies and nuances of United States foreign policy in the developing world.

In light of continued constraints on the amount of military assistance we will be able to provide to our allies in the developing world, what can we do to strengthen their security and self-reliance while at the same time lessen the prospects for regional arms races?

SECRETARY SHULTZ: In answer to this very timely question, several considerations come to mind. We believe that the best course, in a resource-constrained budget, is for Congress to give the Executive Branch greater flexibility in allocating funds by eliminating earmarks. The trend toward increased earmarking of security assistance, culminating this Fiscal Year in the earmarking of over 96% of appropriated funds, represents one of the greatest barriers to our providing effective support to friends and allies around the world.

A further concern, however, is the alarming decline in total military assistance funds over recent years, a trend which has resulted, in many cases, in a total elimination of funding for many developing nations. The United States will be severely constrained, in the near-term future, in its ability to assist these nations to meet their valid security concerns and achieve greater self-reliance. The result could well be increased requirements for direct involvement by U.S. forces in areas of conflict where, had the needed resources been applied, indigenous forces might well have coped effectively with the challenge to U.S. interests.

A third thought is that Congressional passage of "Fair Pricing" legislation would effectively increase the buying power of appropriated funds without providing new resources.

With regard to the prospects for regional arms races, U.S. arms transfer policy attempts to maintain a careful balance between the legitimate defense needs of friendly and allied nations and the avoidance of destabilizing transfers of high technology weapons systems. We believe that this policy has been successful, in recent years, in providing needed defensive systems to key allies without giving rise to major new arms races in the more volatile regions of the world.

EARMARKS

SENATOR INOUYE: Mr. Secretary, the Administration has expressed a great deal of concern about Congressional earmarking of foreign assistance programs. You have expressed this view in your prepared statement today, and in your letter to the Senate of January 28, 1988, reporting on allocation levels to our security assistance programs. In that letter, you claim that these earmarks, taken together with the necessary cuts in funding, have "emasculated our economic and military programs."

Mr. Secretary, which country earmarks would you like to see lifted and why? Is it your opinion that Congress has shown insensitivity to the needs of our allies around the world?

Mr. Secretary, please provide an example of where Congressional earmarking of country funds has imperiled the security of an ally?

SECRETARY SHULTZ: To the extent possible, the Administration favors an appropriations process which results in zero earmarking of security assistance accounts. Only in such an environment can the Executive retain the needed flexibility to respond to a rapidly-evolving international environment, confront new challenges and direct funds to such areas of opportunity as may open up during any given Fiscal Year. Without such flexibility, this or any other Administration will face serious constraints on its ability to advance U.S. interests abroad, including the defense of freedom and democracy wherever they are imperiled by the growing threats from insurgent movements, narcotics traffickers or terrorists.

In answer to your question about allies whose security has been imperiled by the earmarking process, over the past several years inadequate funding levels have had a severely negative impact on our ability to aid many friends and allies in such diverse regions as Central America, the southern flank of NATO, and Southeast and Southwest Asia. Among the specific nations which we would like to have funded more fully, taking account of the major challenges which they face to their national security, are allies and friends such as El Salvador, Honduras, Jordan, Thailand, and Turkey. In all of these instances, and in many others as well, essential programs for embattled friends remain seriously underfunded, reflecting the sharp decline in absolute dollar aid levels since the mid-1980s. Yet it is precisely in these areas that democracy and freedom face their greatest challenges from the threats of external aggression, internal subversion, terrorism and narcotics trafficking.

FMS AND MAP ADMINISTRATIVE COSTS

SENATOR INOUYE: Mr. Secretary, the Foreign Assistance and Arms Export Control Acts state that the Secretary of State is responsible for the continuous supervision and general direction of the Military Assistance and Foreign Military Sales programs. The Arms Export Control Act further requires that purchasers be charged the full cost to the U.S. Government of furnishing services and administering the program of foreign military sales. To meet this requirement, a fee of 3% is charged for all Foreign Military Sales cases and, with respect to the Military Assistance program, this Committee appropriates funds which are then allocated to cover the general administrative costs of the military assistance and sales program.

Have the costs incurred by the Department of State in the exercise of its oversight, administrative and policy development responsibilities for the FMS and MAP programs been covered by charges to recipient nations or drawn from appropriated funds? If not, why not?

What do you estimate to be the total of services rendered by the Department of State for each of the last four years?

SECRETARY SHULTZ: The costs incurred by the State Department in the pursuit of its oversight responsibilities for military aid programs are not covered by charges to recipient nations. Rather, these costs form part of the general State Department budget for administrative and personnel expenses, and are not separately broken out in functional form. For this reason, we are unable to provide a specific estimate of the total dollar value of the services rendered by the Department over the past four years. Various offices within the State Department play major roles in the processes related to the security assistance program, including the Under Secretary for Security Assistance, Science and Technology, the Bureau of Politico-Military Affairs (both its Office of Munitions Control and the Office of Security Assistance and Sales) and the office of the Deputy Secretary of State's Advisors for Policy and Resources. However, it should be noted that many other bureaus and offices of the Department also participate actively in the policy analysis and review process in this area. One additional area of Department costs is that of travel overseas to security assistance field operations and conferences, which is necessary for the proper conduct of our oversight functions. This activity entails the expenditure of tens of thousands of dollars every year. These expenses, as well as our administrative costs and personnel salaries, are not compensated by any additional funding from outside the Department's own budget.

FAIR PRICING

SENATOR INOUYE: Mr. Secretary, a number of measures have been proposed which, if enacted into law, would waive the reimbursement to the U.S. Government of nonrecurring costs associated with the Foreign Military Sales program.

Do you agree that it is inappropriate to levy contract administration charges for standard DOD items resold to FMS purchasers when, by necessity, the Department of Defense must employ quality assurance inspectors, auditors, etc., to maintain its on-the-shelf inventory? If not, why not?

Do you agree with the provision that would ensure that security assistance administrative funds be used to reimburse DOD for those expenses, and only those expenses, that DOD incurs because of the existence of the security assistance programs? If not, why not?

SECRETARY SHULTZ: The Fair Pricing initiative which you have described would be an important and tangible demonstration of U.S. support for friends and allies at a time of serious military assistance shortfalls. Fair Pricing would increase the purchasing power of MAP and non-repayable FMS credits and cash by more than 3 percent. Fair Pricing also supports the substantial political, military and economic benefits the U.S. accrues as the supplier of choice for the legitimate defense requirements of our friends and allies. In addition, reduced FMS charges increase the international competitiveness of U.S. defense articles and services and make the U.S. a more attractive partner for cooperative armaments programs with our allies.

FAIR PRICING

SENATOR INOUYE: Mr. Secretary, do you agree with the proposal that would allow prices for defense services, including training, purchased using non-repayable credits (Egypt and Israel), to be based on the same criteria as such services purchased through the MAP program? If not, why not?

SECRETARY SHULTZ: I agree with the proposal to exclude U.S. military salaries, and I am pleased to note that the Congress has approved this measure for Israel and Egypt during its most recent session, as part of the Foreign Operations Appropriations legislation.

OFFSETS: U.S. GOVERNMENT ROLE

SENATOR INOUYE: What support or encouragement does the State Department give to offset arrangements concluded between commercial suppliers and foreign purchasers of military equipment?

SECRETARY SHULTZ: The Department of State neither supports nor encourages offset arrangements between U.S. commercial suppliers and foreign purchasers of U.S. military equipment. Occasionally, however, predicated on the decision of U.S. companies to enter into such an arrangement for their own purposes and at Congressional direction, we tolerate what some would define as offsets, in such forms as co-production arrangements, offshore procurement, and both direct and indirect trade offsets.

U.S. COMPLIANCE WITH THE MISSILE TECHNOLOGY CONTROL REGIME

SENATOR INOUYE: How many export denials have been issued by the Department of State as a result of prohibitions contained in the Missile Technology Control Regime?

SECRETARY SHULTZ: The Missile Technology Control Regime (MTCR) covers items licensed by both the Office of Munitions Control in the Department of State and the Department of Commerce. As of the end of fiscal year 1988, the U.S. had denied about thirty licenses under the MTCR. Of course, there are continually new cases under review.

SENATOR INOUYE: Have any other countries ever protested the U.S. transfer of missile technology overseas? If so, please list the countries?

SECRETARY SHULTZ: Some of the other MTCR adherents have raised questions about U.S. exports of missile-related items overseas. However, we believe that they have been satisfied with our explanations that we acted properly under the regime.

IMPLEMENTATION OF MISSILE TECHNOLOGY CONTROL REGIME

SENATOR INOUYE: Approximately one year ago, the United States and six of its allies (Japan plus five West European countries), negotiated the Missile Technology Control Regime. Under the Regime, the United States agreed not to supply production technology that could be used for the production of medium range ballistic missiles. What action have you taken to implement the Missile Technology Control Regime?

SECRETARY SHULTZ: We have notified the U.S. licensing agencies of the restrictions imposed on U.S. exports by the MTCR, and we have been assured that the items which are controlled under the regime are on U.S. export control lists: the International Traffic in Arms Regulations (ITAR), the Commodity Control List (CCL), the Nuclear Referral List (NRL). The Department of State administers the ITAR or munitions list; the Department of Commerce administers the CCL and the NRL. These lists will be revised as necessary. Exports identified as being on the MTCR Equipment and Technology Annex receive special scrutiny for missile proliferation implications, often by interagency organizations created for this purpose. We have ongoing consultations with the other adherents to the MTCR to assure that we are working in parallel.

SENATOR INOUYE: Can you assure this Subcommittee that the United State has complied fully with the Missile Technology Control Regime?

SECRETARY SHULTZ: Yes, we have. Of course, we are always working to improve the review process.

SENATOR INOUYE: What is the jurisdictional dividing line between the Department of State and the Department of Commerce in the control of missile technology exports?

SECRETARY SHULTZ: The dividing line for responsibility for missile technology exports (as noted in the MTCR Equipment and Technology Annex) is determined by the export control lists which are administered by the two departments. The Department of State licenses those items on the Annex which are on the munitions list. In general, the Department of Commerce licenses those items which have dual (civilian and military) uses. In addition, the Department of State is responsible for the diplomatic coordination of the MTCR with the other adhering nations.

CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES)

SENATOR INOUYE: What is the Administration's position on the goals and objectives of the Convention on International Trade in Endangered Species of Flora and Fauna?

SECRETARY SHULTZ: The central goal of the Convention on International Trade in Endangered Species of Fauna and Flora is to protect endangered and threatened species of wildlife from the effects of over-exploitation through international trade. At the same time, the Convention seeks to allow the free flow of that trade which does not have a significantly negative impact on wildlife. The Administration fully supports these goals, and the U.S. has traditionally been in the forefront of the activities of the Convention. For example, the U.S. is currently the Chairman of the Convention's Standing Committee.

SENATOR INOUYE: A wide spectrum of support had been given by American non-governmental organizations to the treaty regulating trade in endangered species (CITES). American NGO's have contributed hundreds of thousands of dollars toward this most worthwhile effort. Is the Administration prepared to give its full backing to the implementation of the CITES treaty?

SECRETARY SHULTZ: The Administration, like its predecessors, fully supports the activities of the Convention. The U.S. participates in all aspects of the Convention, and meets all of its obligations under the treaty.

SENATOR INOUYE: What is the Administration currently doing to assist in the preservation of the world's fauna and flora?

SECRETARY SHULTZ: The U.S. record in the international effort to preserve the world's fauna and flora has been one of financial and political committment unmatched by any other nation. The U.S. has been a leader within the Ramsar Convention for the protection of wetlands of importance to waterfowl, is currently negotiating a protocol to the Cartagena Convention on specially protected areas and wildlife, and recently helped to finance an elephant working group meeting called for by the most recent CITES Conference of Parties. The U.S. Agency for International Development has numerous programs in Africa aimed at building up host nations' ability to manage their wildlife and critical habitat. The list could continue, but there is no doubt that the U.S. Government is the leader of the international wildlife conservation movement.

The U.S. Endangered Species Act is considered to be one of the most far-sighted, comprehensive, and effective pieces of conservation legislation anywhere in the world. The programs for avoiding negative impact and fostering recovery which are now being implemented under its authorities are looked at as models for individual species conservation throughout the world.

SENATOR INOUYE: What is the effect of the coming into force of the "financial amendment" to CITES on the U.S. contribution?

SECRETARY SHULTZ: The "financial amendment" passed at the 1983 Conference of the Parties did not affect the way in which the U.S. contributes to CITES. The U.S. does not accept the idea that parties must pay mandatory dues to CITES. Instead, the U.S. contribution is set after consultations between the Administration, Congress, and the NGO community.

SENATOR INOUYE: Do you perceive the lack of funding by this Administration as a sign of waning support of CITES?

SECRETARY SHULTZ: No. The Administration has always sought considerable funding for CITES to the extent possible given overall budgetary limitations. This year, the President signed the 1989 appropriations bill which provided for $650,000 for CITES, a three-fold increase over the previous year. The Administration will continue to seek adequate funding for CITES within its policy to keep overall government spending under control.

SENATOR INOUYE: How might the lack of financial support requested by the Administration for CITES affect U.S. leadership among the treaty signatories?

SECRETARY SHULTZ: U.S. leadership within CITES has never been in question - our election to the chair of the Standing Committee is proof. Leadership within an international organization results from a variety of factors, of which the level of contributions is only a small part. For instance, unilateral U.S. action vis-a-vis countries seen to be in violation of CITES guidelines (such as Singapore and Burundi) have played an important role in reducing illegal wildlife trade. This kind of leadership is key to our position within CITES.

SENATOR INOUYE: When the CITES Conference of the Parties met last July, which parties opposed the Secretariat budget and what is their current position now on funding?

SECRETARY SHULTZ: The U.S., the Federal Republic of Germany, and Australia opposed the budget proposed by the Secretariat because of its proposed expenditures in excess of the revenues which were expected. The Secretary General informed the U.S. government at the end of November that the countries which had objected to the budget at the 1987 meeting had met their financial obligations to CITES.

SENATOR INOUYE: Given the decline of the U.S. dollar to half its value vis-a-vis the Swiss franc between 1985 and 1987, and that most of CITES expenditures are in Switzerland, why did the Administration fail to request an increase in the annual U.S. contribution so as to pay its fair share of the increase in costs?

SECRETARY SHULTZ: While it is regrettable that CITES operations were so hard hit by currency fluctuations over the last few years, the U.S. has never been in a position to compensate for exchange losses for CITES or any other organization. U.S. embassies and military installations abroad have been equally hard hit and have had to absorb the losses within their own budgets.

SENATOR INOUYE: Although the U.S. has been the largest contributor to CITES over the years, and granted that our contributions have been designated as voluntary, is not the Administration concerned that our arrearage already is second to that of the U.S.S.R., which has never contributed? Indeed, no other western developed country which is party to CITES is behind in its payments.

SECRETARY SHULTZ: The key phrase of the question is that the U.S. is the largest contributor to CITES and has been for years. The $650,000 which we will pay in FY 1989 is far and away the largest contribution of any country. That fact and our active participation in all aspects of CITES activities is the true measure of our leadership in CITES, not an artificial scorecard based on mandatory assessments which the U.S. government has never accepted.

WORLD BANK: GENERAL CAPITAL INCREASE

SENATOR INOUYE: Mr. Secretary, in making your case for the congressional approval of the $70 million General Capital Increase (GCI) for the World Bank, you state in your prepared remarks that the contribution is needed to maintain an active

U.S. presence in the institution. In fact, you declare that in the past "U.S. influence within the World Bank has been strong, far-sighted, and innovative."

If, as you say, past U.S. contributions to the World Bank have increased U.S. influence over its lending policies, then why has the institution moved so slowly in responding to our country's concerns on environmental matters, poor project design, and the destruction of habitats belonging to indigenous peoples?

SECRETARY SHULTZ: The U.S. message to the Bank on environmental issues has been strong and unmistakable, and the Bank, for its part, has been responsive. Its actions have been catalogued in State and Treasury Department reports to Congress, and are worth repeating:

-- Environmental units have been created in each of the Bank's four regional offices, and a central Environment Department has been established under the Senior Vice President for Policy, Planning, and Research;

-- During the past two years, almost sixty staff members and consultants have been hired to work within these environmental units;

-- Technical training has been initiated for Bank staff and for LDC member officials on various aspects of environment and development;

-- The Bank has dramatically increased its contacts with private voluntary groups and with local grass roots organizations, and has promoted similar contacts for its borrowing members.

As a result, the environment has rapidly become an integral part of the Bank's country economic and sector work. We can expect a lag between the promulgation of new policies and their absorption throughout an organization as large and complex as the World Bank, and I want to stress that delays have occurred. In some cases these new policies contradict time honored practice; elsewhere delays can be traced to the borrowing countries, which see environmental safeguards as an unaffordable luxury and an infringement upon their sovereignty.

But I can assure you that satisfactory progress has been made, and I trace this progress directly to the energetic role the U.S. has played within the institution. Discussions with the Bank on specific projects now regularly include environmental aspects of Bank lending. Bank management has recognized the interdependence of environment and sustainable development, and the effect its programs can have upon the rights of native peoples. Thanks to its influence, the World Bank now acts as a powerful catalyst for environmental reform in borrowing countries and in the regional MDBs.

Let me state categorically that more progress is needed: on energy conservation, in providing information on lending operations to groups directly affected by World Bank projects, and in involving local community groups in project planning at the earliest stages. In those instances where the Bank fails to meet our standards, we will continue to press for change. And, of course, we will seek to improve the effectiveness of our initiative by coordinating our efforts with other Bank members. But credit should go where it is due, and the World Bank has made progress in the last two years in responding to U.S. concerns for environmental matters, project design, and the destruction of habitats belonging to indigenous peoples.

NOTIFICATIONS AND REPORTS TO CONGRESS ON DEBT RELIEF

SENATOR INOUYE: The General Accounting Office (GAO) in a recent report that legislation be enacted which would require that notifications to Congress on proposed debt relief be substantially improved. The legislation would require that notificiations describe all prior debt-relief actions for the country and explain why previous debt-relief agreements have failed, what the prospects are for collecting the debt, and what national interests are being served by granting the debt relief. (GAO/NS-IAD 87-2, October 1986). What steps have been taken to improve the Department's notifications to Congress on debt relief?

SECRETARY SHULTZ: The United States General Accounting Office (GAO) recommended in a February 1988 report that notifications to Congress of proposed debt relief should be substantially improved. Specifically, the report recommended that notifications of proposed debt reschedulings should state clearly why the rescheduling is necessary and in the U.S. interest; and that reports of completed official debt reschedulings should present a more complete picture of how agreements affect U.S. financial interests.

Since receiving the GAO's recommendations, the Department has taken steps to improve the notifications and reports to Congress on debt relief.

First, the Department has provided more information in its letters of notification to Congress of proposed debt relief. The notifications now contain specific comments on why rescheduling a country's official debt is essential and how the rescheduling maximizes the chances for repayment of amounts due---a basic U.S. financial interest.

In addition, the Department now reports on completed official debt negotiations in the letters which it sends to Congress. The letters now include details on the amounts and terms of the rescheduled debt service agreed to in multilateral negotiations. They also provide comments on issues important to broader U.S. financial interests such as burden-sharing among creditors and institutional procedures for the extension of debt relief.

EGYPT: FMS REFINANCING

SENATOR INOUYE: How will a new Paris Club rescheduling of Egyptian debt affect a possible agreement to refinance Egypt's FMS repayments?

SECRETARY SHULTZ: A possible agreement to refinance Egypt's FMS payments will not be affected by a new Paris Club rescheduling since FMS debt service payments, even if refinanced, will still be eligible for Paris Club rescheduling.

AMERICA IN DECLINE?

SENATOR INOUYE: Mr. Secretary, it is fashionable in many quarters of the world today to speak of the United States in retreat and to view our country as but another in a long list of waning powers which have exhausted both their moral and political leadership. Just last April The New York Times Magazine carried an article on this theme, lending credence, I believe incorrectly, to the notion that our great Republic has begun to decline.

Mr. Secretary, in your capacity as Secretary of State, could I ask you to speak, for a moment, on this subject and provide us with your thoughts on America's future as a world leader?

SECRETARY SHULTZ: The story of America's post-war role in the world remains one of remarkable successes. And I believe we continue to have the capacity and the vision for leadership. Moreover, others continue to look to us for that leadership. But we must have the will to lead in this turbulent, complex and changing world. And our leadership must be suited to the times if it is to be effective in protecting and promoting America's fundamental interests and values.

For America's sake and for the sake of our allies and friends around the world, the United States must remain a global force for human rights, peace, prosperity and democracy. Isolationism, protectionism, and political retrenchment have never worked for America in the past, and they will not work as strategies for dealing with the realities of today's world or for the complexities of the Twenty-First Century.

The United States must stay fully prepared to defend our own most basic security interests in the face of threatening adversaries. Under the Reagan Administration, we have restored our defense capabilities. Moreover, we have strengthened ties with allies and friends. We have built a worldwide network of ties crucial to global prosperity and security that will serve us well into the next century. This, in turn, has enabled our country to negotiate from strength. As a result, our relations with our principal adversary, the Soviet Union, are today on a more stable and constructive footing. Reflecting this development, we have achieved an unprecedented agreement with the Soviet Union to eliminate an entire class of nuclear weapons.

America is, and will remain for the foreseeable future, the fundamental guarantor of the global balance of power. Our active involvement throughout the world ensures that not only we, but our allies and friendly nations -- great and small, developed and developing alike -- can continue to advance economically and politically within a secure environment. But our military strength and our security ties alone do not give us the capacity to lead. Today, the economic, political and diplomatic elements of our national strength are equally critical. In these areas as well, we are well-positioned for the future.

America's economy is innovative, open and expanding and our economic strength will continue to increase. Our trade deficit is declining and we are becoming more productive. America continues to be the largest source of economic opportunity, high technology and manufacturing capability in the world; and our service sector is poised for an ever greater role in the world market. Our fidelity to free market values and an open international trading system has permitted America to enjoy our longest sustained period of peacetime growth in the post-war period. It has enabled our allies and friends to prosper. Almost everywhere in the world there are movements toward openness, decentralization, deregulation and denationalization.

America's democratic values remain our greatest asset. They make profound practical sense in a world where individual initiative, ingenuity, and the free flow of information and people are keys to progress in the century ahead. The once-small handful of embattled democracies find themselves growing in strength and number, and viewed around the world as the wave of the future. Democratic and free market values are gaining strength among the peoples of Latin America; in the Philippines, Korea, Thailand and elsewhere in Asia; and in Africa.

We already know that the future will be marked by vast changes in the relationships of wealth, capability and power among the world's nations:

- Scientific and technological advances are transforming the world economy, leading to the reassessment of existing institutions, relationships and long-held values.

- One or two superpowers no longer dominate world affairs. There are increasingly numerous centers of economic and technological strength and political power.

- Peoples once accustomed to American preeminence and protection are ever more capable of shaping their own futures and they are ever more determined to do so. Alliances and security arrangements will evolve as countries acquire greater economic, and hence, political influence, and domestic economic policies are being developed in the context of an increasingly integrated world.

- The proliferation of high-technology weapons to unstable regions; new conventional and space technologies; and such low-intensity threats as terrorism and narcotics trafficking are changing the international security environment, posing challenges beyond the capacity of any one country to meet -- even one as strong as the United States.

From these trends, however, the conclusion to reach is not that we are in decline and that we have lost the capacity for leadership. For many of the changes in the international environment that we are seeing are consequences of our own successful and enlightened policies of political openness and free markets. We were instrumental in building the foundation upon which the postwar world was built, a world system which has brought unprecedented success to the countries that embrace it and which can bring them even greater success in the decades ahead.

The point is that we must exercise leadership today within a coalition of increasingly capable countries. The challenge is to blend our economic and security strengths with those of our increasingly talented friends and allies. Our willingness to be open, to engage and to cooperate has been the secret of our remarkable success to date and will continue to serve us in the future.

Our diplomatic imperatives must be to use what has worked, such as collective security, while recognizing that new tactics may be required. For most problems, the answer can only be found in a pragmatic working-out with other concerned nations. Yet, the American philosophy is pragmatism and we have had great experience in adapting to and benefitting from change.

The United States cannot have all the answers in today's increasingly interdependent world, but of some things we can be certain. First, if we are to protect America's most fundamental foreign policy interests, we must continue to hold fast to democratic values and energetically promote open markets. Second, we must continue to pursue the policies of strength, realism and engagement that have been key to our successes. Third, if America is to grasp the opportunities and meet the challenges that the future will bring, we must constantly renew the national bipartisan consensus on the need for U.S. leadership. The challenges we will be facing must not tempt us to retreat into political isolationism and its economic counterpart, protectionism.

Finally, we must provide the foreign affairs resources that give substance to our words, lend credibility to our commitments and permit the execution of our plans. We cannot continue to cut our own share of economic and security assistance critical to our security and that of our allies and friends. We must be prepared to make a long-term investment in highly skilled, well-trained diplomatic personnel, who can be deployed to best advantage and supported with the infrastructure, equipment and technical resources needed to function effectively.

In sum, America must have both the political will and the budgetary commitment to lead. If we do, we will meet the multiple challenges that face us and continue to realize our nation's potential as an unequalled world force around the globe for human rights, peace, prosperity and democracy.

TURKEY: IRAQ RELATIONS

SENATOR INOUYE: The leaders of Turkey and Iraq recently concluded talks over repeated Iraqi violations of Turkish airspace. Turkey has warned that it could open fire if the violations continue. Has the United States made any effort to mediate this dispute?

SECRETARY SHULTZ: During the Iran-Iraq War, Turkey was at times concerned about airspace violations along its borders with Iran and Iraq, but the United States was not asked to act as mediator by any of the parties. The cease-fire agreed to last summer by Iran and Iraq has alleviated those concerns.

TURKEY: POSSIBLE BRITISH ARMS DEAL

SENATOR INOUYE: According to recent reports, Prime Miniser Margaret Thatcher apparently has struck an implicit bargain with Turkish Prime Minister Turgat Ozal that links the Turkish purchase of British arms and other trade matters to the United Kingdom's support of Turkey's application to join the European Economic Community. Weapons sysems which appear to be under consideration by the Turks include: a Rapier missile upgrade valued at $375 million, a tactical radio communications system valued at over $185 million, and a Racal antiaircraft defense radar system.

Can you confirm this deal and the financial terms under which it has been struck?

How does this deal affect the U.S. arms supply relationship with Turkey?

What are the consequences of this type of deal on the cohesion of the Western alliance? Do you believe it encourages a bidding war among arms suppliers which is politically disruptive?

SECRETARY SHULTZ: We are unaware of any linkage between Turkish purchase of British arms and other trade matters to Turkey's application for full membership in the European Economic Community. As Turkey has emerged from the difficulties of the late 1970's, its trade with the United Kingdom and other countries including the United States has increased significantly. Turkey is a valued ally, and we support British efforts to strengthen Turkey's trade relations with members of the EEC.

DEFENSE AGREEMENT WITH SPAIN

SENATOR INOUYE: What progress has been made in negotiations over a renewal of the 35-year old U.S.-Spain defense treaty?

SECRETARY SHULTZ: The United States and Spain signed a new defense agreement on December 1 in Madrid. The 8-year agreement provides for continued access for US forces to important Spanish military facilities at Rota, Zaragoza and Moron, for the withdrawal within three years of the US 401st tactical fighter wing based at Torrejon Air Base, and for the elimination of all aid to Spain (with the exception of a small IMET training program). Despite our disappointment at the Spanish Government's decision on the 401st, we believe the agreement serves US and NATO interests well. It will take effect once the Spanish parliament ratifies it. Following longstanding policy and practice for basing agreements, the US will conclude the new defense agreement as an executive agreement rather than as a treaty.

U.S. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

SENATOR INOUYE: I understand that the Administration is taking a hard look at alternatives to growing shortfalls in United States assessed contributions to international organizations, including the negotiation of reductions in assessments. Yet, as a member of the Administration, you have publicly voiced concern that these shortfalls in our contributions "undermine our efforts to achieve implementation of the important budgetary reforms which have been approved in the United Nations and key affiliated agencies at our initiation." How can you reconcile your support for full funding for international organizations with the Administration's repeated attempts to cut funding for international organizations, and its frequent withholdings of U.S. contributions to the end of the fiscal year?

SECRETARY SHULTZ: With the exception of FY 1989, when overall funding was constrained by the terms of the Budget Summit Compromise agreed upon by the Administration and the Congress, this Administration has sought essentially full funding of U.S. requirements for international organizations. The current and very serious arrearage situation which we face in several organizations is largely attributable to shortfalls in final appropriations and withholdings mandated by various legislative vehicles (e.g., Kassebaum-Solomon Amendment, Gramm-Rudman-Hollings sequestrations). I would add, however, that the Administration strongly supported the intent and purpose of such legislative provisions as the Kassebaum-Solomon Amendment as a significant aid to our efforts in achieving important administrative and budgetary reforms in the UN and key affiliated agencies. There is no question that the Kassebaum-Solomon Amendment was instrumental in accelerating the reform process in certain UN agencies.

We do not withhold U.S. contributions to the end of our fiscal year. However, for most of the larger organizations, the U.S. pays its assessments in the last quarter of the calendar year from funds appropriated for the fiscal year beginning October 1. As a consequence, U.S. contributions for these organizations will be deferred some nine or ten months. The organizations thus affected clearly understand this payment schedule and have adjusted their cash flows accordingly.

U.S. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

SENATOR INOUYE: Mr. Secretary, you have said that "for the United States to seek an assessment reduction (to international organizations) would be tantamount to accepting a diminished American role in world affairs -- a diminished ability for America to pursue our most fundamental security, humanitarian and economic interests around the world." And yet, it was your administration which has requested a funding level for the international organization's assessed contribution in FY 1989 of $489.9 million, a 25 percent shortfall.

What sort of diminished role in world affairs are you willing to accept if Congress is unable to find the funds necessary to make up the shortfall in the administration's request to fund the international organization's?

SECRETARY SHULTZ: The Administration's FY 1989 funding request for international organizations ($489.9 million) was the product of the Budget Summit Compromise agreed to by the Administration and the Congress to achieve specified deficit reduction targets in the federal budget. In accord with that agreement, it was based on the level appropriated for the account in FY 1988 which was significantly below the level requested by the Administration. The level of the funding request should not be interpreted to reflect diminished support of U.S. participation in international organizations. Rather, the reduced funding request (some 75 percent of estimated requirements) reaffirmed the Administration's strong commitment to abide by the agreement reached with the Congress. Thus, the funding request in no way indicates a willingness by the Administration for the United States to accept a diminished role in world affairs. This is clearly understood in the international organizations.

NOTIFICATIONS AND REPORTS TO CONGRESS ON DEBT RELIEF

SENATOR INOUYE: The GAO recommended in a recent report that the legislation be enacted which would require that notification to Congress on proposed debt relief be substantially improved. The legislation would require that notifications describe all prior debt-relief actions for the country and explain why previous debt-relief agreements have failed, what the prospects are for collecting the debt, and what national interests are being served by granting the debt relief. (GAO/NSIAD-87-2, October 1986). What steps have been taken to improve the Department's notifications to Congress on debt relief?

SECRETARY SHULTZ: The United States General Accounting Office (GAO) recommended in a February 1988 report that notifications to Congress of proposed debt relief should be substantially improved. Specifically, the report recommended that notifications of proposed debt reschedulings should state clearly why the rescheduling is necessary and in the U.S. interest; and that reports of completed official debt reschedulings should present a more complete picture of how agreements affect U.S. financial interests.

Since receiving the GAO's recommendations, the Department has taken steps to improve the its notifications and reports to Congress on debt relief.

First, the Department has deepened the content of its letters of notification to Congress of proposed debt relief. The notifications now contain specific comments on why rescheduling a country's official debt is essential and how the rescheduling maximizes the chances for repayment of amounts due---a basic U.S. financial interest.

In addition, the Department has expanded the content of the letters it sends to Congress to report on completed official debt negotiations. The reports now include details on the amounts and terms of the rescheduled debt service agreed to in multilateral negotiations. They also provide comments on issues important to broader U.S. financial interests such as burden-sharing among creditors and institutional procedures for the extension of debt relief.

NARCOTICS CONTROL

SENATOR INOUYE: On March 1st, the President certified that 20 countries were cooperating fully with the United States, or taking steps on their own to control narcotics production, trafficking and money laundering. The purpose of these certifications is to determine whether or not countries receiving U.S. aid are performing on narcotics eradication goals. However, according to your own report, the production of opium, heroin or marijuana is actually going up in most of the countries we are certifying as adequately performing on narcotics control. Clearly, something is wrong here. Mr. Secretary, why are you certifying countries where the drug production actually has increased?

SECRETARY SHULTZ: On March 1st, the President certified that 18 countries were cooperating fully with the United States, or taking steps on their own to control narcotics production. Mr. Reagan denied certification to four countries, and determined that continued assistance was in our national interest in two other instances.

The criterion for certification is cooperation, not absolute success. True, worldwide production totals are increasing for opium, coca and marijuana, in response to expanding global demand, even as there has been some levelling of imports of illicit drugs in to the U.S. market. But, the key issue in certification is whether we are receiving cooperation -- taking into account the factors cited in the statute. In determining cooperation, we weigh social and economic variables, political situations, geographic and climatic factors, and particularly year to year improvements in the kinds and scopes of programs undertaken. We attempt to answer the tandem questions: What was this country capable of doing this past year, given these factors? How much did they actually accomplish, given these opportunities/limitations?

INDONESIA

SENATOR INOUYE: On March 11, General Suharto was named to his fifth term as President of Indonesia. Though I understand the government has enacted sweeping reforms that substantially cut the number of import monopolies, allowed all licensed businesses to export, and eliminated red tape for foreign investment and the tourist industry, these changes have not been matched by political reform which could raise the confidence of Indonesians hopeful for greater democracy in their country. What are the prospects for sustaining the pace of reform of the economy now underway in Indonesia?

SECRETARY SHULTZ: We have been impressed by Indonesia's commitment to reform and believe the prospects for sustaining and indeed increasing the pace of economic reform are excellent. In recent months the Government of Indonesia has taken further steps to deregulate the economy and has announced its intention to continue this process of reform. These measures have sought to increase economic efficiency and make Indonesia's industrial base more competitive internationally. The two latest deregulation packages (in October and November 1988) have targetted the financial sector -- increasing competition in the banking industry and promoting development of capital markets -- and trade and transportation -- removing over 300 non-tariff barriers and opening the shipping industry to new investment.

SENATOR INOUYE: What progress has Indonesia made in reducing its $35 billion foreign debt which, I understand, takes a third of Indonesia's hard currency income?

SECRETARY SHULTZ: Indonesia holds the developing world's largest unrescheduled debt -- about $45 billion ($37 billion official, $8 billion private). In response to declining oil export revenues, Indonesia embarked on a major drive to increase non-oil exports, primarily through its deregulation measures. The 41 percent increase in such exports over the past year has helped to keep Indonesia's debt/export ratio at a reasonable level. Indonesia has also undertaken a program of fiscal austerity, cutting its development and defense budgets significantly. The President and his ministers have reiterated the Government's determination to stay current on its external debt, and there is every indication the Government will manage the economy prudently and maintain its repayment record for the foreseeable future.

PHILIPPINES

SENATOR INOUYE: Recent economic indicators from the Philippines look promising. Inflation is down to an annual rate of 9.7 percent from the 1984 high of 50 percent. The country's output of goods and services grew 5.6 percent last year, in spite of a drought and an August coup attempt that scared capital abroad. Finally, the Government reported that consumption grew by 5.5 percent last year. Given this optimistic economic forecast, why do you believe popular disaffection with the Government is increasing?

SECRETARY SHULTZ: I do not agree that Philippine popular disaffection with the Government is increasing. An August nationwide opinion poll shows that the Philippine public continues to support their President and her close advisers. 73 percent of those polled said they were satisfied with President Aquino's performance. The Government also received high marks for maintaining peace and order and providing services such as water, education, and health. In this same poll, the number of people expecting their quality of life to improve also rose slightly after declining in 1987 as the euphoria of EDSA wore off.

In her recent speech covering her first 1,000 days in office, President Aquino spoke about an impressive list of accomplishments: the drafting and approval of a new constitution, elections for Congressional and local government officials, restoration of a free press, and an improved peace and order situation. Most Filipinos are proud of these accomplishments. They recognize, however, that the Philippine Government faces many daunting tasks in the next few years. As is true in other countries where freedom of speech is guaranteed, there is public criticism of government performance. This free and lively debate, however, does not mean that popular disaffection with the government is growing, rather it is a sign that democracy in the Philippines is alive and flourishing.

PHILIPPINES: FOREIGN AID PIPELINE

SENATOR INOUYE: I understand that about $1.5 billion in international aid available to the Philippines is held-up in the pipeline awaiting decisions on how it should be spent. Much of this money is for long-term projects that are still in the development stages. I understand that both the Department of State and the World Bank have encouraged President Aquino to hasten decisions on new projects and investments so that creditors will extend more aid. What have you done to assist the Philippines to speed up project disbursements and reduce the amount of foreign assistance in the funding pipeline?

SECRETARY SHULTZ: U.S. Government officials have had frequent consultations with Philippine officials to discuss projects financed by foreign aid. These discussions brought the pipeline issue to the attention of the highest levels of the Philippine Government. Philippine officials are committed to speeding up project development and implementation and have taken steps to resolve the problem of the pipeline.

In late 1987, the Philippine Government appointed a Special Presidential Committee to identify implementation problems and recommend solutions. This Committee identified administrative bottlenecks that result in lower than expected disbursements of assistance for ongoing projects and a lack of properly prepared projects that could use aid already committed by donors.

Subsequently, the Philippine Government instructed the heads of executive departments to appoint a senior official as a Projects Implementation Officer. A Project Implementation Committee in the Office of the President was also formed. These actions are aimed at quickly bringing problems to the attention of those in authority and prompting decisions to resolve them. These actions have speeded up the use of foreign assistance. Further improvements are expected as administrative reforms begin to take effect.

U.S. officials have also been talking with the Philippine Government and other donors to develop well prepared projects linked to policy and administrative reforms, in order to better use the foreign assistance resources available from donors.

SENATOR INOUYE: Have you supported President Aquino's decision to ease audit procedures as a way of reducing the backlog in project funding? If so, can you assure this Subcommittee that President Aquino's decision will not impede efforts by auditing agencies of the U.S. Government and PVO's from carrying out their responsibilities?

SECRETARY SHULTZ: Yes, we support the Philippine Government's actions to speed up the use of foreign assistance and we encourage further steps to address the problem. We can assure you that there will be no decrease in accountability of assistance funds provided by the United States.

SUDAN

SENATOR INOUYE: Mr. Secretary, page 331 of the Congressional Presentation for Security Assistance Programs for FY 1989 states that "the principal mission of (the Sudanese People's Armed Forces) is external security." How can this position be supported in light of the Government's concentration on fighting a civil war during the last five years?

SECRETARY SHULTZ: The aim of our security assistance program in Sudan has been and continues to be to support the Armed Force ability to perform its principal mission - external security. All armed forces - the Sudanese are no exception - have a secondary role of providing internal defense. The civil war in Sudan has focused a good deal of that army's attention on this secondary role. Our security assistance program, however, has remained focused on the external threat. Most recently we have concentrated on a mobile desert force of trucks and armored cars suitable for use in the Northwest corner of Sudan through which there had been some concern that Libya forces might pass to confront Chadian forces.

AFRICA: CIVIC ACTION PROGRAMS

SENATOR INOUYE: Mr. Secretary, can you assure this Subcommittee that Military Civic Action nation-building projects in Africa are not being used to unduly enhance the stature of the military in underdeveloped countries while hindering the evolution of democratic processes?

SECRETARY SHULTZ: The purpose of the Military Civic Action program is to encourage the military in undeveloped countries to make a constructive contribution to nation building projects and thereby reinforce democratic trends. The idea is that the army exists for the benefit of the people. By careful selection of target countries and attention to project selection we believe we are achieving that purpose.

CIVIC ACTION PROGRAM

SENATOR INOUYE: In recent years a number of West African countries have stopped allowing the Soviet fishing fleet to operate in their coastal waters. Many of these countries (Equatorial Guinea, Guinea-Bissau, Mauritania, Sierra Leone, Senegal), also are recipients of U.S. military assistance funds allocated under the Africa Civic Action program. Do you feel it is appropriate to use Africa Civic Action funds to encourage African nations to expel the Soviet fishing fleet and/or open up their waters to American commericial fishing operations?

SECRETARY SHULTZ: One of the purposes of the Coastal Security portion of the Africa Civic Account is to help developing nations take control of an important resource - their offshore economic zones. If the Soviets are paying an appropriate price for their fishing rights as a result of vigorous enforcement programs which we have assisted, the program will have achieved its goal of encouraging economic sovereignity. We would hope that American commercial fishing operations would act in accordance with sound business practice and with the proper concern for African economic soverignity.

CIVIC ACTION

SENATOR INOUYE: A recent report prepared by the Africa Bureau on the U.S. Civic Action program made reference to one of our West Africa ambassadors who stated that the program was more valuable to U.S./African relations than even the highly successful IMET program. Does this mean that you would like us to cut IMET and put its funds in the Civic Action account?

SECRETARY SHULTZ: The highest praise we can offer one of our African military assistance programs is to call it the equal of the IMET program. The programs are in fact complementary. IMET in the long run is our most valuable program in that it allows us to establish bonds with rising generations of leadership in the armed forces. The Civic Action account is focused on today's problems, not personalities and permits us to help African armies address appropriate nation-building projects effectively within their limited budets. Rather than seek to cut IMET funds to benefit the Civic Action account, we often seek to provide technical training under the IMET program which would permit the successful execution of a civic action project.

HUMAN RIGHTS AND GLASNOST

SENATOR INOUYE: Mr. Secretary, I am aware that you have made extraordinary efforts to aid dissidents seeking to immigrate from the Soviet Union. In particular, I have learned of the case of Yuri Ziman, an individual requiring urgent medical treatment for what his doctors believe to be a brain tumor. Though the Soviets admit they lack the medical technology and expertise necessary to treat Mr. Ziman, nevertheless, they refuse to grant him an exit visa so that he can receive proper care inthe United States. This past week, Mr. Ziman again was told by th Soviet authorities that his urgent request for treatment in the U.S. has been rejected. He now lives, hour by hour, a frustrated ailing man, denied both compassion and the most basic human right of medical care. Mr. Secretary, what does the case of Yuri Ziman tell us about the limits of Gorbachev's policy of Glasnost? What are the prospects now for Mr. Ziman's release and what steps are you continuing to take to make his dream a reality?

SECRETARY SHULTZ: I am pleased to inform you that Yuri Zieman, a Soviet Jewish refusenik who was attempting to leave the Soviet Union for medical treatment, was allowed to emigrate with his family this summer. The Ziemans now reside in the United States.

While Soviet performance on human rights still leaves much to be desired, we have seen improvement in recent months. Mr. Zieman's case, here he was finally allowed to leave after several refusals, is an example of this.

We are gratified by many of the changes we have seen, but will continue to press the Soviets to resolve all such cases and to institutionalize these recent reforms.

IRAN-IRAQ WAR

SENATOR INOUYE: I understand that earlier this month Ayatollah Khomeini appointed Parliament Speaker Ali Akbar Hashemi-Rafsanjani as commander-in-chief of the Iranian armed forces. (Washington Times, page 1, June 3, 1988). Do you interpret this change in Iran's military leadership as a signal of stepped-up hostilities or as recognition of the fact that the war with Iran may have become hopelessly stalemated?

SECRETARY SHULTZ: The appointment of Rafsanjani as acting commander-in-chief appears to be a reflection of Khomeini's confidence in Rafsanjani's leadership abilities as well as his displeasure with the current military commanders, whom Khomeini apparently blamed for Iran's deteriorating military situation. The move probably also reflected the increasing inability of Khomeini, who was commander-in-chief prior to Rafsanjani, to handle onerous government responsibilities as his health worsens.

SENATOR INOUYE: How would you assess Iran's current military position in the Gulf war in light of its recent setbacks on the Faw Peninsula?

SECRETARY SHULTZ: Iran's loss of Faw--and its subsequent military failures during later Iraqi offensives in July--indicate that Iran's military posture had weakened severely, undoubtedly a major factor in causing the Khomeini regime to accept United Nations resolution 598. Iranian defeats, combined with the the loss of massive quantities of materiel in July, suggest that it will be several years before Iran will be in a position to assume full-scale hostilities.

SENATOR INOUYE: Has the United States issued any new warnings to Iran regarding the construction of a new Silkworm missile site within attack range of the Strait of Hormuz? If so, what was the nature of these warnings?

SECRETARY SHULTZ: The U.S. has not issued recent new warnings to Iran concerning Silkworm missile sites. The Iranian government is certainly aware of our position toward these sites; we regard them as potential threats to U.S. naval vessels and U.S.-flagged shipping in the Gulf, and will take whatever action necessary to protect ourselves.

IRAN: MISSILE PRODUCTION CAPABILITY

SENATOR INOUYE: Recently, the Iranian Defense Minister, Brigadier General Mohammad Hoseyn Jalali, was quoted as saying that: "Some 80 percent of the missiles fired at Iraq have been Iranian made" and that lately, "two types of missiles with a range of 130 kilometers have been selected and intensive production will begin on them at the beginning of this month." (FBIS, May 13, 1988, 41). What evidence do you have that Iran has an indigenous missile production capability of the type and magnitude described by the Iranian Defense Minister? What nation(s) are responsible for providing Iran with its missile production technology?

SECRETARY SHULTZ: Iran is trying to enhance its indigenous capability to produce missiles, and has sought equipment, production technology and technical assistance from a number of countries in the West and Asia. Iranian claims regarding current missile production capabilities appear to be exaggerated; it may be, for example, that Iran assembles foreign parts and components rather than actually producing them indigenously. Over time, however, Iran's military industrial base can be expected to grow, and its ability to produce short range missiles will increase.

SENATOR INOUYE: What affect do you see this new military capability as having on the balance of power in the Persian Gulf region and the U.S. military posture?

SECRETARY SHULTZ: Iran's capability is not yet of a magnitude that would significantly affect the balance of power in the Gulf or the U.S. military posture in the area.

SENATOR INOUYE: How have the governments in the Middle East responded to the possibility of Iran developing an indigenous missile production capability?

SECRETARY SHULTZ: The governments of the area have remained largely silent on the subject of Iranian missile-producing capabilities, but many of them are likely concerned about a significant potential threat if Iran's ability to produce such missiles in large quantities should become well-established.

U.S. SALE OF ROCKET TECHNOLOGY TO IRAQ

SENATOR INOUYE: I understand that the Department of Commerce has allowed the government of Iraq to acquire the production and test equipment for a solid fuel rocket factory from the United States. Among the items supplied to Iraq are: rocket fuel mixers; carbon composite production equipment; carbon fiber winding equipment; computers; and apparently, electronic test equipment. Are you aware that the U.S. Commerce Department has authorized the supply of rocket technology to Iraq? What is your position on the transfer of this sophisticated technology to Iraq in light of our express policy of neutrality in the Gulf War and our condemnation of the Chinese Government for continuing to supply Iran with Silkworm missiles?

SECRETARY SHULTZ: We are not aware of any sales of U.S. rocket technology to Iraq. Owing to our concern for regional stability and our neutrality in the Iran-Iraq war, as well as our opposition to missile proliferation, U.S. policy prohibits the sale or transfer of munitions list items to Iraq. The Department of State licenses munitions list items.

SENATOR INOUYE: What are the policy guidelines which govern the sale of U.S. military equipment to Iraq and how does the provision of this equipment enhance U.S. foreign policy and non-proliferation interests in the Middle East region?

SECRETARY SHULTZ: There are no foreign policy controls on industrial exports to Iraq. The Department of Commerce licenses industrial, dual use items which are not on the munitions list. It has given special review to items on the Missile Technology Control Regime (MTCR) Equipment and Technology Annex since the MTCR was created in April 1987. The Departments of State and Defense review many of these MTCR cases. We are not aware that licenses for any items covered by the MTCR Annex have been issued since then. Questions about specific licenses issued by the Department of Commerce should be directed to that Department.

JORDAN: SOVIET ARMS PURCHASES

SENATOR INOUYE: According to reports, Jordan concluded a deal with the Soviet Union for the purchase of a first batch of between 30 and 40 MiG-29 aircraft. Senior Jordanian Air Force officers visited the Soviet Union in December, 1987, to conclude the deal which was signed by King Hussein during a visit to Moscow last Spring. How will this deal be financed and is the Government of Saudi Arabia still opposed to funding the Jordanian purchase of Soviet aircraft? Is Jordan still considering the purchase of European Tornado or French Mirage 2000 fighters?

SECRETARY SHULTZ: Reports that Jordan has purchased Soviet MiG-29 aircraft have thus far proved unfounded. Despite what was reported to be an extremely good offer by the Soviets, Jordan has announced agreements to purchase French Mirage 2000 aircraft, financed by France, and Tornado aircraft, to be financed by the aircraft's European makers.

ARAB SUMMIT: CRITICISM OF SHULTZ

SENATOR INOUYE: At the recent Arab summit meeting in Algiers, the final communique of the 21-member Arab League criticized your peace initiative, saying that current "efforts to achieve peace in the Middle East...are slow and ineffective and do not have the capability to face the Israeli stand, which insists on rejecting peace." In addition, there are reports that the Arab leaders at the summit pledged from $100 million a year to more than $400 million to support the Palestinian uprising in the West Bank and Gaza. How has the Arab League contributed to your peace-making effort and what has it done to foster an environment in which negotiations toward a settlement of the Arab-Israeli conflict can take place?

SECRETARY SHULTZ: There is little that the Arab League as an institution can point to in terms of fostering an environment in which negotiations can take place. Individually, however, since the Algiers Summit, several key Arab states and particularly Jordan and Egypt have pressed the PLO hard to drop its hostile policies and to accept UNSCR 242 and 338 as the basis for negotiation of the Arab-Israeli conflict. Recent decisions taken by the PNC and subsequent statements by senior PLO officials, including Arafat, indicate that these responsible voices are having an effect. As the Secretary indicated, however, more such movement will be required. As for financial pledges, we have no evidence to indicate that the PLO or the Palestinian uprising has been the beneficiary of substantial new funds.

ARAB SUMMIT

SENATOR INOUYE: At their recent summit in Algiers, Arab states pledged to support the Palestinian uprising with "all possible means" while avoiding a formal rejection of your current Middle East peace initiative. Mr. Secretary, do you believe that Arab support for the Palestinian uprising with "all possible means" is compatible that spirit and objectives of your peace initiative?

SECRETARY SHULTZ: We do not know what the phrase "all possible means" signifies in practical terms. The record shows that not only is the PLO being pressed hard by Egypt and Jordan to moderate its position and accept U.S. conditions for a dialogue, but it is also being pressed by many Palestinians within the intifada in the West Bank and Gaza to move toward peace with Israel. Most Arab states have come to understand that issues related to the conflict, including the status of the occupied territories, can only be settled on the basis of direct negotiations between the concerned parties.

EGYPT: DOMESTIC ARMAMENTS INDUSTRY

SENATOR INOUYE: The recent M1A1 tank deal with Egypt has given new life to a 1975 proposal for a joint Arab armaments industry. As diplomatic and military ties between Egypt and the Gulf states improve, Cairo is viewed increasing as the core of this new enterprise. Currently, Egypt has the fastest developing military industry in the Arab world. What is the likelihood of the Arab world developing a selective, indigenous, high-volume, modern military production capability independent of the superpowers?

SECRETARY SHULTZ: As you note, Egypt and several of the Gulf Arab states had worked together in the mid-1970s to develop an integrated defense industrial capability in a program called the Arab Organization of Industries (AOI). Cooperation in the AOI was suspended in 1979 when Egypt signed a peace treaty with Israel. Despite a good deal of speculation, the reinvigoration of Egypt's political, diplomatic, and security relations with the moderate Gulf Arab states in November 1987 has not led to a revitalization of the AOI as a multilateral effort. The AOI continues to exist as an Egyptian program only.

The M1A1 coproduction program has not affected prospects for the AOI, as it will not fall under the AOI umbrella but, rather, will remain under the control of the Egyptian Ministry of Defense's own defense industrial program. Moreover, the M1A1 program was designed to meet Egyptian requirements alone. Any proposal to transfer the tanks coproduced in Egypt to any other country would be subject to the third country transfer requirements in the Arms Export Control Act.

A number of Arab states, like countries around the world, have embarked on various projects in recent years aimed at enhancing their self-sufficiency in defense industries. For its part, the Government of Egypt has made clear that this will be a high priority objective in its military modernization program. We expect that these efforts will continue but, given the financial, technical, and practical limitations, we do not foresee the development of a large scale, technologically sophisticated defense industry which would exist independent of the superpowers or other advanced industrial states.

SENATOR INOUYE: What would the consequences of such a development be on U.S. security interests in the region and on American industry which would lose an important export market?

SECRETARY SHULTZ: We believe that there will continue to be important export opportunities for US defense industries even if indigenous defense industries develop along the lines you have suggested. Dependence on foreign suppliers for acquisition of high-tech defense equipment will likely continue. Development of indigenous defense industries will also present opportunities for U.S. companies to enter into various cooperative arrangements, such as coproduction agreements, with local producers. As such, this development would be consistent with U.S. national security interests which are strengthened by the existence of close, mutually beneficial security ties with our friends in the region.

PAKISTAN AND INDIA: ADMINISTRATION COMMITMENTS

SENATOR INOUYE: I understand that the technology the Administration wishes to sell to India includes advanced ring laser gyros for a new, Indian-designed warplane. Why is the Administration anxious to provide advanced laser gyros to India when that country maintains such a close military supply relationship with the Soviet Union?

SECRETARY SHULTZ: The Government of India is building an indigenous light combat aircraft (LCA) with U.S. and other western collaboration. This is part of the longstanding interest on the part of the Indians in diversifying their sources of military supply and enhancing their own military production capabilities. The project has become the most visible and the most promising area of U.S.-Indian defense cooperation. In April 1987, the USG offered a comprehensive package of U.S. products and technologies, including the ring laser gyro, for incorporation into the LCA. We view defense cooperation with the GOI, such as involvement with the LCA program, as important to expand military to military contacts and to be compatible with long-term U.S. objectives in the region.

SENATOR INOUYE: Are these laser gyros on the Munitions Control List? If so, what controls will be placed upon their transfer to prevent them falling into Soviet hands?

SECRETARY SHULTZ: The gyros we have offered for release to the GOI are on the Munitions Control List. The same gyros are currently available on commercial airplanes, including East European airlines. Nevertheless, one of the conditions of sale of the ring laser gyro requires the Government of India to provide adequate security controls. We believe the GOI can meet these specific requirements.

PAKISTAN: MILITARY SELF-SUFFICIENCY

SENATOR INOUYE: Recently the Pakistan ordnance factories chairman, Major General Talat Masud, said that Pakistan has not only acquired the capability of producing antitank and antiaircraft missiles, rocket launchers and long-range missiles, but it is also exporting more than 20 percent of these weapons. (FBIS, 59, Jan. 26, 1988) Can you confirm the accuracy of this claim?

SECRETARY SHULTZ: Pakistan produces a range of conventional weapons, including 106-mm recoiless rifles, which were originally designed as antitank weapons, and 122-mm artillery rockets. We do not believe that the Pakistanis manufacture guided antitank weapons, antiaircraft missiles or long-range missiles. although we do not have exact figures on Pakistani arms exports as a percentage of total domestic arms production, the 20 percent figures seem high to our experts.

SENATOR INOUYE: Is the United States encouraging Pakistan's apparent push toward military self-sufficiency? If so, how is the U.S. enouraging Pakistan?

SECRETARY SHULTZ: At the request of the Government of Pakistan, the United States has discussed with it ways in which U.S. assistance might be used to promote greater Pakistani self-sufficiency in military production. As a policy, the United States is not actively encouraging or discouraging Pakistan from becoming militarily more self-sufficient.

SENATOR INOUYE: Has the United States advised Pakistan on how to achieve self-sufficiency in the production of any military equipment? If so, what equipment?

SECRETARY SHULTZ: So far, the United States is assisting Pakistan in military production only through commercial contracts. Two U.S. companies have contracts to assist

Pakistan in the manufacture of M1-13A armored personnel carriers and small arms ammunition.

PAKISTAN: MILITARY COOPERATION WITH TURKEY

SENATOR INOUYE: I understand that the Government of Pakistan has asked Turkey to set up a tank and pallet factor in that country. In the meantime, Pakistani tanks will be modernized at Turkey's Arifiya plant with up-to-date optic computer and weapon control systems. I also am informed that the Arifiya factory soon will begin manufacturing diesel engine M48A512 tanks. (FBIS 14, Dec, 2, 1987) Is it your understanding that Pakistan is interested in becoming self-sufficient in tank production?

SECRETARY SHULTZ: We understand from our discussions with the Government of Pakistan (GOP) that greater self-sufficiency in military production, including the design and manufacture of its own main battle tank, is a long-term goal. In the shorter term, the GOP plans to buy tanks from other countries, including possibly the United States.

SENATOR INOUYE: What would be the export potential of a Pakistani-made tank?

SECRETATY SHULTZ: It is impossible to estimate the export potential for a Pakistani tank until we have a better idea of the capabilities of such a tank, its price, and so forth. Of course, the longer the period before such a tank comes into production, the greater will be the competition of the World market.

SENATOR INOUYE: Do you anticipate that a Pakistani tank would incorporate any American technology? If so, how would this inhibit its transfer to a third party?

SECRETARY SHULTZ: It is certainly possible that the Pakistanis will decide to purchase a U.S. technology for any tank they might manufacture, but there is no agreement on such a transfer at this time. One consideration affecting their decision undoubtedly will be the U.S. legal requirement that they not export a domestically produced tank or any other weapons system which incorporates U.S. technology without obtaining the approval of the United States.

PAKISTAN: DEPLOYMENT OF MERCENARY

SENATOR INOUYE: I understand that around 10% of the 10,000 troops deployed with the Pakistani armored brigade in Saudi Arabia are believe to be Shi'ites and that at one point, fearing their possible sympathy with Shi'ite Iran, the Government asked that they be withdrawn. The Pakistanis refused claiming they were an integral part of their army. Does the U.S. Government consider these Shi'ites a threat to Saudi Security?

SECRETARY SHULTZ: The U.S. Government assessment is that the Shi'ites in the Pakistani brigade in Saudi Arabia were loyal to their commanders and did not pose a threat to Saudi security. Most of this brigade has been redeployed to Pakistan.

SENATOR INOUYE: Has the United States encouraged

Pakistani participation in this type of arrangement as a way of earning hard currency and decreasing dependence on U.S. foreign assitance?

SECRETARY SHULTZ: The United States has not tried to influence the GOP one way or another about sending its troops abroad to bolster the security forces of governments that have requested them.

PAKISTAN: AIR FORCE MODERNIZATION

SENATOR INOUYE: I understand that the Pakistanis have been considering the possibility of setting up a production line for a new hybrid fighter to replace the aging, Chinese-made equivalent of the MiG-21 that has been the mainstay of their interceptor fleet. Known as the Sabre II project, it calls for placing an advanced U.S. engine and avionics in a new Chinese-made airframe. Are the Pakistanis still considering this option for their air force?

SECRETARY SHULTZ: We understand that the proposed Sino-Pakistani Sabre II project has been cancelled.

SENATOR INOUYE: What would be the impact of this decision on their overall military posture and the regional balance of power?

SECRETARY SHULTZ: The long-range impact on its military posture of a decision by Pakistan to produce a high-performance fighter is difficult to assess without knowing how long the R&D period would last, what actual production rates would be, and the like. In the shorter term, R & D costs would inhibit Pakistan from buying fighters from other countries.

SENATOR INOUYE: Would the Administration look favorably upon supplying Pakistan withthe engines needed for this project?

SECRETARY SHULTZ: As you know, the U.S. has provided GE F404 engines to India for its own light combat aircraft. I cannot speak for the new Administration, but expect that it would be willing to consider sympathetically a Pakistani request for a similar engine.

SENATOR INOUYE: What are the other options Pakistan is considering for modernizing its airforce?

SECRETARY SHULTZ: We are unaware of any other plans by Pakistan to produce an indigenous fighter aircraft. Rather, the Pakistani Government reportedly is considering purchasing fighters from a number of countries. It has informed us, for example, that it would like to buy more F-16s.

SENATOR INOUYE: What is the estimated cost to Pakistan of this project and how does its impact on the Pakistani defense budget compare with other modernization options under consideration?

SECRETARY SHULTZ: The Government of Pakistan had planned to allocate to the Sabre II project $200 million annually for six years. We assume the project was cancelled because the Pakistanis determined that it would be cheaper to buy foreign aircraft than to pay the development costs of an indigenous model.

CONCLUDING REMARKS

Senator INOUYE. With that, I would like to thank you once again for the forthright and candid way you have assisted us throughout the years. You and your staff have been extremely cooperative in our joint endeavor to implement the foreign policy of the United States. We have tried our best to be, as you have indicated, bipartisan in our approach.

But, if I may, in behalf of the committee, I wish to thank you very much for your 5 great years with us, sir.

Secretary SHULTZ. Thank you very much, Mr. Chairman. I appreciate your comments and I reciprocate them. You have been a wonderful person to work with, both when you were the ranking member and now in your role as chairman. I have appreciated our ability to work very easily, constructively, and directly together.

SUBCOMMITTEE RECESS

Senator INOUYE. The hearings will stand adjourned.

We will have our markup next week.

[Whereupon, at 11:18 a.m., Thursday, June 16, the subcommittee was recessed, to reconvene at the call of the Chair.]

LIST OF WITNESSES AND PREPARED STATEMENTS

Page

Bleakley, Kenneth, Deputy Assistant Secretary for International Assistance, Bureau for Refugee Programs, Department of State-- 139
Bohn, John A., Jr., President and Chairman, Export-Import Bank of the United States---------- 1
  Prepared statement---------- 6
Bremer, L. Paul, III, Ambassador-at-Large for Counter-Terrorism, Department of State---------- 187
  Prepared statement---------- 189
Brown, Terrence J., Director, Office of Development Resources for Latin America and the Caribbean, Agency for International Development---------- 29
  Prepared statement---------- 31

DeSoto, Lisa, Assistant Director, U.S. Trade and Development Program, International Development Cooperation Agency---------- 37
Dragon, Robert, Vice President, Finance Department, Overseas Private Investment Corporation---------- 59

Frame, Nancy D., Acting Director, U.S. Trade and Development Program, International Development Cooperation Agency---------- 37
  Prepared statement---------- 41
Funseth, Robert L., Senior Deputy Assistant Secretary of the Bureau for Refugee Programs---------- 139

Garfinkel, Eric, General Counsel, Overseas Private Investment Corporation---------- 59

Moore, Jonathan, Director, Bureau for Refugee Programs, Department of State---------- 139
  Prepared statement---------- 143

Nalen, Craig A., President and Chief Executive Officer, Overseas Private Investment Corporation---------- 59
  Prepared statement---------- 63

Shultz, Hon. George, Secretary of State---------- 251
  Prepared statement---------- 261

Starek, Ross, Deputy Assistant Secretary for Policy and Counter-Terrorism, Bureau of Diplomatic Security, Department of State- 187

WITNESSES AND PREPARED STATEMENTS—Cont.

Page

Tomseth, Victor, Director of Office of Thailand and Burma Affairs, East Asia and Pacific Bureau, Bureau for Refugee Programs, Department of State---------------------------------- 139

Van Wert, James, Executive Director, Bureau of International Narcotics Matters, Department of State---------------------- 171

Wrobleski, Ann B., Assistant Secretary, Bureau of International Narcotics Matters, Department of State---------------------- 171
  Prepared statement------------------------------------ 174

SUBJECT INDEX

Page

AGENCY FOR INTERNATIONAL DEVELOPMENT
Office of Development Resources for Latin America and the Caribbean

Eligible commodities, determination of------------------------- 34
Submitted questions:
    Senator Inouye--- 97
    Senator Kasten--- 100
Trade credit insurance program---------------------------29, 34, 35

DEPARTMENT OF STATE

Bureau for Refugee Programs

Budget request--- 140
Domestic Resettlement Program---------------------------152, 155
Emergency needs-- 153
Ethiopia, situation in------------------------------------- 148
Hemispheric migration project------------------------------ 149
International programs, contributions to------------------- 141
Israel, refugees to-- 167
Mozambican refugees-- 169
Polish refugees-- 160
Refugee admissions--------------------------142, 154, 156, 166
Refugee assistance--- 140
Southeast Asia refugees-------------------------------159, 162
Soviet citizens, medical care for-------------------------- 149
Thailand, first asylum in---------------------------------- 164

Bureau of International Narcotics Matters

Afghanistan, Pakistan, and Iran, drug activities in------------ 172
Aviation program--- 172
Bahamas transshipment points------------------------------- 181
Budget request--- 171
Colombia, cocaine processing in-----------------------180, 184
Latin America and the Caribbean, drug sources from------------- 171
Peru, coca growth in--------------------------------------- 181
Southeast Asia, drug imports from---------------------172, 185
U.S. drug interdiction efforts----------------------------- 183

Page

Counter-Terrorism

Abu Abbas, Italian actions against 201
Anti-U.S. attacks 187
ATA funding request 188
Greece, extradition from 203
Iraq, situation in 203
Japanese Red Army 204
Yugoslavia, attitudes in 202

SECRETARY OF STATE

Adequate budgetary resources 257
Afghan refugees 306
Angola, settlement in 315
El Salvador, restrictions on assistance to 299
Foreign aid successes and failures 303, 316
Foreign countries, U.S. product production in 256
Global trends 254
Greece, Spain, and Portugal, negotiations with 296
Iran, Chinese silkworm missiles to 320
Kuwait, sale of weapons and aircraft to 305, 308, 313
Middle East situation 259
Military aid and base access rights 295
Narcotics, producing and trafficking countries responsible for 309
NATO burdensharing 258
Nicaragua, developments in 297
Nuclear deterrence 296
150 function budget 253
Pakistan, elections in 297
Panama, U.S. policy toward 317
Philippines, negotiations with 295, 304
Romania, human rights in 307
Saudi Arabia, Pakistani troops in 304
Secretary Shultz, commendations of 251, 312
Southeast Asian refugees 301
Soviet and Eastern European refugee programs 298
Submitted questions 323
United Nations, arrears in U.S. payments to 255
U.S./Soviet relations 258
World economic trends 255
World War II, U.S. programs initiated during 256
Submitted questions:
    Senator Inouye 206
    Senator Harkin 239
    Senator Hatfield 242

EXPORT-IMPORT BANK

Budget request 2, 3
City-State program 5
Developing countries, U.S. exports to 3
Direct loan program, elimination of 23
Export credit agency usage 2
Export losses 18

EXPORT-IMPORT BANK—Cont. Page

Federal Trade Finance Bank, need for--- 26
Financial condition--- 4
Intermediary trade business--- 25
Negative interest rate losses--- 25
New programs, report on--- 1
Past notes recoveries--- 21
Personnel level operations--- 4
Small business transactions--- 24
Submitted questions:
    Senator Inouye--- 82
    Senator Lautenberg--- 94
    Seanator Kasten--- 95
War chest, creation of--- 19
Wealthy countries, lending to--- 20

OVERSEAS PRIVATE INVESTMENT CORPORATION

African growth fund--- 77
Directive loan program--- 75
Egypt loan guarantees--- 78
Environmental impact considerations--- 78
Finance program--- 60
Haitian activities--- 77
Loan arrearages--- 76
Loan portfolio--- 61
Projects--- 60
Purpose and activities--- 59
Reauthorization bill, 1988--- 62
Submitted questions:
    Senator Inouye--- 120
    Senator Kasten--- 136
Syria, programs in--- 76
U.S. competitiveness--- 62

U.S. TRADE AND DEVELOPMENT PROGRAM

International Development Cooperation Agency

Activities--- 37
Budget request---38, 57
China, business opportunities in--- 52
Federal-State program success--- 55
Philippines, policy formulation in--- 53
Private sector success stories--- 39
Reverse trade mission--- 56
State initiative---39, 56, 58
Submitted questions:
    Senator Inouye--- 101
    Senator Kasten--- 119

○

90-651 (360)